

CHAPTER - 10

CASH FLOW STATEMENT

Answer

Which stakeholder group	Would be most interested in
(a) Government and other regulators	the Vat and other tax liabilities of the firm
(b) Management	the potential for pay awards and bonus deals
(c) Social responsibility groups	the ethical or environmental activities of the firm
(d) Lenders	whether the firm has a long term future
(e) Suppliers and creditors	profitability and share performance
(f) Customers	ability of the firm to carry on providing a service or producing a product

Accounts Title	Amt. (₹)
Debtors	
Nathu	55,000
Roopa	20,000
Creditors	
Reena	35,000
Ganesh	25,000
Cash	54,000
Stock on April 1, 2004	16,000

DO IT YOUR SELF I

Question 1. The profit and loss account of Roy Limited is given here under

Profit and Loss Account			
Dr		Cr	
for the year ended March 31, 2012			
Expenses/Losses	Amt. (₹)	Revenues/Gains	Amt. (₹)
Opening Stock	2,00,000	Sales	
Purchase		Cash Sales	8,00,000
Cash Purchase	4,00,000	Credit Sales	3,40,000
Credit Purchase	17,00,000	(-) Return	(2,00,000)
(-) Return	(1,00,000)	Net Sales	40,00,000
Net Purchase	20,00,000	Trading	20,40,000
Administrative	10,20,000	Commission	
Expenses		Discount	60,000
Discount Allowed	1,20,000	Received	
to Customers		from Suppliers	
Bad Debts	1,00,000	Closing Stock	1,00,000
Depreciation	3,80,000		
Provision for Tax	8,00,000		
Net Profit	15,80,000		
	62,00,000		62,00,000

Additional Information

	(₹)	(₹)
Bills Receivable	20,00,000	40,00,000
Bills Payable	20,00,000	10,00,000
Outstanding Administrative Expenses	10,000	20,000
Prepaid Administrative Expenses	20,000	10,000
Accrued Trading Expenses	20,000	40,000
Advance Trading Expenses	40,000	20,000
Provision for Taxation	10,00,000	12,00,000

Answer

Indirect Method Statement for Cash from Operations

Particulars	(₹)
Profit before Tax (15,80,000 + 8,00,000)	23,80,000
Adjustments Depreciation	3,80,000
Operating Profit Before Working Capital Changes	27,60,000
(+) Increase in outstanding Administrative Expenses	10,000
Decrease in Prepaid Administrative Expenses	10,000
Increase in Accrued Trade Expenses	20,000
Decrease in Advance Trade Expenses	20,000
Decrease in Stock	1,00,000
(-) Increase in Bills Receivable	(20,00,000)
Decrease in Bills Payable	(10,00,000)
Cash Generated from Operating Activities	(80,000)
(-) Income Tax Paid	(6,00,000)
Cash used in Operating Activities	(6,80,000)

Working Note

Provision for Taxation Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank A/c (Balancing Figure Tax Paid)	6,00,000	By Balance b/d	10,00,000
To Balance c/d	12,00,000	By Profit and Loss A/c (Current Year Provision)	8,00,000
	18,00,000		18,00,000

Question 2. From the following information calculate net cash from operations

Particulars	(₹)
Operating Profit after Provision for Tax of ₹ 1,53,000	6,28,000
Insurance proceeds from the Famine Settlement	1,00,000
Proposed Dividend for the Current Year	72,000
Depreciation	1,40,000
Loss on Sale of Machinery	30,000
Profit on Sale of Investments	20,000
Dividend Received on Investments	6,000
Decrease in Current Assets (Other than Cash and Cash Equivalents)	10,000
Increase in Current Liabilities	1,51,000
Increase in Current Assets (Other than Cash and Cash Equivalents)	6,00,000
Decrease in Current Liabilities	64,000
Income Tax Paid	1,18,000
Refund of Income Tax Received	3,000

Answer**Cash Flow from Operating Activities**

Particulars		(₹)
Net Profit before Tax and Extraordinary Items		6,81,000
Adjustments		
(+) Proposed Dividend	72,000	
Depreciation	1,40,000	
Loss on Sale of Machinery	30,000	2,42,000
(-) Profit on Sale of Investment	(20,000)	
Dividend Received on Investment	(6,000)	
Income Tax Refund	(3,000)	(29,000)
Operating Profit before Working Capital Changes		8,94,000
(+) Decrease in Current Assets	10,000	
Increase in Current Liabilities	1,51,000	1,61,000
(-) Increase in Current Assets	(6,00,000)	
Decrease in Current Liabilities	(64,000)	(6,64,000)
Cash Generated from Operations		3,91,000
(-) Income Tax paid		(1,18,000)
(+) Refund of Income Tax Received		3,000
(-) Insurance Proceeds from Fire Settlement		1,00,000
Net Cash from Operating Activities		3,76,000

Working Note Calculation of Net Profit before Tax and Extraordinary Items

Net Profit after Provision for Tax	6,28,000
(+) Provision for Tax	1,53,000
(-) Insurance Proceeds from Fire Settlement	(1,00,000)
	6,81,000

TEST YOUR UNDERSTANDING II

Question 1. Choose one of the two alternatives given below and fill in the blanks in the following statements

(a) If the net profits earned during the year is Rs. 50,000 and the amount of debtors in the beginning and the end of the year is Rs. 10,000 and Rs.20,000 respectively, then the cash from operating activities will be equal to Rs.....(Rs. 40,000/ Rs.60,000).

Answer Rs. 40,000

(b) If the net profits made during the year are Rs. 50,000 and the bills receivables have decreased by Rs. 10,000 during the year then the cash flow from operating activities will be equal to Rs.....(Rs. 40,000/Rs. 60,000).

Answer Rs. 60,000

(c) Expenses paid in advance at the end of the year are.....the profit made during the year (added to/deducted from).

Answer Deducted from

(d) An increase in accrued income during the particular year is.....for calculating the cash flow from operating activities (added to/deducted from).

Answer Added to

(f) For calculating cash flow from operating activities, provision for doubtful debts is.....the profit made during the year (added to/deducted from).

Answer Added to

Question 2. While computing cash from operating activities, indicate whether the following items will be added or subtracted from the net profit, if not to be considered write NC.

Items	Result
(a) Increase in the value of creditors	
(b) Increase in the value of patents	
(c) Decrease in prepaid expenses	
(d) Decrease in income received in advance	
(e) Decrease in value of stock	
(f) Increase in the share capital	
(g) Increase in the value of bills receivables	
(h) Increase in the amount of outstanding expenses	
(i) Conversion of debentures into shares	
(j) Decrease in the value of bills payables	
(k) Increase in the value of debtors	
(l) Decrease in the amount of accrued income	

Answer

Items	Result
(a) Increase in the value of creditors	Added
(b) Increase in the value of patents	NC
(c) Decrease in prepaid expenses	Added
(d) Decrease in income received in advance	Subtracted
(e) Decrease in value of stock	Added
(f) Increase in share capital	NC
(g) Increase in the value of bills receivables	Subtracted
(h) Increase in the amount of outstanding expenses	Added
(i) Conversion of debentures into shares	NC
(j) Decrease in the value of bills payables	Subtracted
(k) Increase in the value of debtors	Subtracted
(l) Decrease in the amount of accrued income	Added

DO IT YOURSELF II

Question 1. From the following particulars, calculate cash flows form investing activities

	Purchased (₹)	Sold (₹)
Plant	4,40,000	50,000
Investments	1,80,000	1,00,000
Goodwill	2,00,000	
Patents		1,00,000

Interest received on debentures held as investment Rs.60,000 Dividend received on shares held as investment Rs.10,000

A plot of land had been purchased for investment purposes and was let out for commercial use and rent received Rs. 30,000.

Answer

Cash Flow form Investing Activities

Particulars	Amt. (₹)
Purchase of Plant	(4,40,000)
Purchase of Investment	(1,80,000)
Purchase of Goodwill	(2,00,000)
Sale of Plant	50,000
Sale of Investment	1,00,000
Sale of Patents	1,00,000
Interest on Debentures (Investment)	60,000
Dividend on Shares (Investment)	10,000
Rent Received on Land (Investment)	30,000
Cash used in Investing Activities	(4,70,000)

Question 2. From the following Information, calculate cash flow from investing and financing activities

Particulars	2010	2011
Machine at Cost	5,00,000	9,00,000
Accumulated Depreciation	3,00,000	4,50,000
Equity Shares Capital	28,00,000	35,00,000
Bank Loan	12,50,000	7,50,000

In year 2011, machine costing Rs. 2,00,000 was sold at a profit of Rs. 1,50,000, depreciation charged on machine during the year 2011 amounted to Rs. 2,50,000.

Answer

Cash Flow form Investing Activities

Particulars	Amt. (₹)
Purchase of Machinery	(6,00,000)
Sale of Machinery	2,50,000
Net Cash used in Investing Activities	(3,50,000)

Cash Flow from Financing Activities

Particulars	Amt. (₹)
Issue of Equity Share Capital	7,00,000
Payment of Bank Loan	(5,00,000)
Net Cash Flow from Financing Activities	2,00,000

Dr Machinery Account Cr			
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	5,00,000	By Bank (Sale of Machinery)	2,50,000
To Profit and Loss (Profit on Sale of Machinery)	1,50,000	(1,00,000 + 1,50,000)	
To Bank (Balancing Figure)		By Depreciation (Transfer from Accumulated Depreciation)	1,00,000
(Purchase of Machinery)	6,00,000	By Balance c/d	9,00,000
	12,50,000		12,50,000

Dr Accumulated Depreciation Account Cr			
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Depreciation on Machine Sold (Transferred) (Balancing Figure)	1,00,000	By Balance b/d	3,00,000
To Balance c/d	4,50,000	By Profit and Loss (Depreciation for the Year)	2,50,000
	5,50,000		5,50,000

SHORT ANSWER TYPE QUESTIONS

Question 1. What is a cash flow statement?

Answer A cash flow statement shows inflow and outflow of cash and cash equivalents from various activities of a company during a specific period. The primary objective of cash flow statement is to provide useful information about cash flows (inflows and outflows) of an enterprise during a particular period under various heads, i.e., operating activities, investing activities and financing activities. It explains the reasons of receipts and payments in cash and change in cash balances during an accounting year in a company.

Question 2. How the various activities are classified (as per AS-3 revised) while preparing cash flow statement?

Answer As per Accounting Standard-3 various activities of cash flow statement are classified into three categories as follows

(i) Cash Flow from Operating Activities :These are the principal revenue producing activities of the enterprise and other activities. The cash flow statement begins with the operating activities section. Operating activities generally reflect cash generated and/or paid as a result of the firm's core business functions. Under US GAAP, this category incorporates the cash received from customers, paid to suppliers, paid for operating costs, paid for income taxes, received from interest or dividends, and paid for periodic interest costs.

(ii) Investing Activities: These are the acquisition and disposal of long-term assets, other investments not included in cash equivalents. Cash flows from investing activities are those involving non-current capital assets used in the firm's operations, such as Property, Plant, Equipment (PP&E) and intangible assets. When a company invests in new long-term capacity by acquiring either PP&E or another company, the investment is a cash outflow from investing activities. Disposals of these types of assets for cash generate inflows.

(iii) Financing Activities :These are the activities that result in changes in the size and composition of the owner's capital and borrowings of the enterprise. Cash flows from financing activities are those that take place between a firm and its investors. These include both the equity investments of stockholders (owners) and the loans from bondholders and other creditors. When the company issues new shares, it records a cash inflow from financing, and when it repurchases shares, pays dividends or pays off debt, it records a cash outflow.

Question 3. State the uses of cash flow statement

Answer The various uses of cash flow statement are as follows

(i) First of all a cash flow statement along with other financial statements provides information that enables users to evaluate changes in net assets of an enterprise, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timings of cash flows in order to adapt to changing circumstances and opportunities.

(ii) Cash flow information is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises.

(iii) It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.

(iv) Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also helpful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and impact of changing prices.

Question 4. What are the objectives of preparing cash flow statement?

Answer The various objectives of preparing cash flow statement are as follows

(i) The first and most important objective of cash flow statement is that helps to ascertain the gross inflows and out flows of cash and cash equivalents from operating, investing and financial activities.

(ii) A cash flow statement helps in determining the various causes for change in the cash balances during an accounting period.

(iii) A cash flow statement is also prepared to determine the liquidity position of the

organisation.

(iv) Moreover a cash flow statement is prepared to know about the requirement of cash in future.

Question 5. Explain the terms : Cash equivalents, Cash flows.

Answer A cash flow statement shows inflows and outflows of cash and cash equivalents from various activities of an enterprise during a particular period. As per AS-3, 'Cash equivalents' means short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Thus, cash equivalents refer to such investments that are held for the purpose of meeting short term cash commitments rather than for investments or other purposes. An investment normally qualifies as cash equivalent only when it has a short maturity, of say, three months or less from the date of acquisition.

Investments in shares are excluded from cash equivalents unless they are in substantial cash equivalents, e.g., preference shares of a company acquired shortly before their specific redemption date provided there is only insignificant risk of failure of the company to repay the amount at maturity. Similarly, short term marketable securities which can be readily converted into cash are treated as cash equivalents.

Question 6. Prepare a format of cash flow from operating activities under direct method and indirect method.

Answer Format of cash flow from operating activities under direct method 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	—

Format of cash flow from operating activities under indirect method is as follows

Indirect Method		
Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items		—
(+) Non-Cash Expenses and Non-Operating Expenses		
Depreciation	—	
Goodwill	—	
Interest Paid	—	
Loss on Sale of Fixed Assets	—	
Foreign Exchange	—	—
(-) Non-operating Incomes		
Dividend Received	—	
Profit on Sale of Fixed Assets	—	
Interest Received	—	—

Indirect Method		
Operating Profit before Working Capital Changes		—
(+) Decrease in Current Assets	—	
Increase in Current Liabilities	—	—
(-) Increase in Current Assets	—	
Decrease in Current Liabilities	—	—
Cash Generated from Operating Activities		—
Income Tax Paid		—
Cash Flow before Extraordinary Items		—
(+)/(-) Extraordinary Items		—
Net Cash Flow from Operating Activities		—

Question 7. 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 Operating Activities: As we know that these are the principal revenue producing activities of the enterprise and other activities. Operating activities generally reflect cash generated and/or paid as a result of the firm's core business functions. Hence, the following will be the operating activities in the above mentioned enterprises respectively

(i) In Case of a Hotel :Receipts from sale of goods and services to the customer will be operating activity related to revenue generation. And payment of wages and salaries, electricity, food items and other items used in accommodation and stay of customer will be an operating activity related to expenditure.

(ii) Film Production House: In case of film production house revenue generating operating activity would be its receipts from selling film rights of a film to the distributors and its operating activity related to expenditure would be payment made to the staff member, unit, actors, actresses, directors, location rent and air fare etc.

(iii) Financial Enterprise: In case of a financial enterprise like bank the receipts from repayment of loans, interest incomes from investments, etc will be considered as revenue generating operating activity and repayment of loans, recovery expenditure for recover of loans, etc. Salaries of employees will be considered as operating activity related to the expenditure.

(iv) Media Enterprise: A media enterprise is involved in service industry and its revenue generating operating activity would be receipts from advertisements. And expenditure related operating activity would be payments to staff, reporters, photographers, etc.

(v) Steel Manufacturing Unit :The main source for revenue for a steel manufacturing unit would be its receipts from sale of steel sheets, steel castings, steel rods, etc. And the expenditure related operating activity would be payment for raw material (iron, coal), salaries to staff, etc.

(vi) Software Business Unit: A software business unit is basically a service providing unit which get its revenue through receipts from sale of software and renewal of licenses as an operating activity and various payment made by it in the form of salaries to its employees, etc. It is the part of operating activity as expenditure.

Question 8. "The nature/type of enterprise can change altogether the category into which a particular activity may be classified." Do you agree? Illustrate your answer.

Answer Yes, the nature or type of an enterprise can change altogether the category into which a particular activity may be classified. This can be better understood with the help of an example of two firms. One engaged in real estate and the other engaged in general business. For the firm that is engaged in real estate business purchase and sales of building will be part of the operating activity on the other hand firm that is engaged in general business purchase and sales of building will be part of the investing activity. Hence, it can be said that the classification of activities depends on the nature and type of enterprise.

LONG ANSWER TYPE QUESTIONS

Question 1. Describe the procedure to prepare cash flow statement.

Answer The procedure for preparing cash flow statement is as follows

Step 1 First of all cash flows from operating activities is ascertain.

Step 2 After that cash flows from investing activities is ascertain.

Step 3 The third step is to ascertain the cash flows from financing activities.

Step 4 Sum up the total of all the three steps and ascertain net increase or decrease.

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. The main difference in direct and indirect method is to calculate the cash flow from operating activities. Computation of rest of the two activities will remain same. Here are the Proforma of cash flow statement from both the methods.

Direct Method			
Cash Flow Statement			
	Particulars	Amt. (₹)	Amt. (₹)
A.	Cash Flow from Operating Activities		
	Cash Sales	—	
	Cash Receipt from Debtors	—	
	(-) Cash Purchase	—	
	Cash Paid to Creditors and Other Expenses	—	
	Cash Generated from Operating Activities	—	
	(-) Income Tax Paid	—	
	Cash Flow before Extraordinary Items	—	
	(+)(-) 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	—	
	(-) Purchase of Fixed Assets	—	
	(-) 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	—	
	(-) Repayment of Debentures and Other Long Term Borrowings	—	
	(-) Redemption of Preference Shares	—	
	(-) Interest Paid	—	
	(-) 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	—	—

Indirect Method			
Cash Flow Statement			
	Particulars	Amt. (₹)	Amt. (₹)
A.	Cash Flow from Operating Activities		
	Net Profit before Tax and Extraordinary Items		—
	(+) Non-Cash Expenses and Non-operating Expenses		
	Depreciation	—	
	Goodwill	—	
	Interest paid	—	
	Loss on Sale of Fixed Assets	—	
	(-) Non-operating Incomes		
	Dividend Received	—	
	Profit on Sale of Fixed Assets	—	
	Interest Received	—	
	Operating Profit before Working Capital Changes		—
	(+) Decrease in Current Assets	—	
	Increase in Current Liabilities	—	
	(-) Increase in Current Assets	—	
	Decrease in Current Liabilities	—	
	Cash Generated from Operating Activities		—
	(-) Income Tax Paid	—	
	Cash flow before Extraordinary Items		—
	(+)(-) Extra ordinary Items		—
	Net Cash Flow from Operating Activities		—

B.	Cash Flow from Investing Activities		
	Sale of Fixed Assets	—	
	Sale of Long Term Investments	—	
	Interest Received	—	
	Dividend Received	—	
	Rent Received	—	
	(-) Purchase of Fixed Assets	—	
	(-) 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	—	
	(-) Repayment of Debentures and Other Long Term Borrowings	—	

	Particulars	Amt. (₹)	Amt. (₹)
	(-) Redemption of Preference Share	—	
	(-) Interest Paid	—	
	(-) 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		—

Question 2. Describe “Direct” and “Indirect” method of ascertaining cash flow from operating activities.

Answer

Computation of Cash Flow From Operating Activities

The first section of cash flow statement, known as cash flow from operating activities, can be prepared by two methods known as direct method and indirect method.

(i) Direct Method :In the direct method format, each line of the operating activities section represents a sum of all cheques or deposits in a particular category, e.g., the operating activities section would include such items as cash received from customers; cash paid to suppliers; cash paid for interest; cash paid for wages; cash paid for research and development; cash paid for selling, general, and administrative costs; and any other relevant summary lines.

Direct Method Format: Cash flow from operating activities is calculated by direct method as follows

Cash Flows from Operating Activities	
(a) Cash Receipts from Customers =	
Net Sales + Beginning Accounts Receivable	
– Ending Accounts Receivable	
	= xxx
(b) Cash Payments to Suppliers	
Purchase + Ending Inventory – Beginning Inventory	
+ Beginning Accounts Payable – Ending Accounts Payable	
	= xxx
(c) Cash Payments to Employees	
Beginning Salaries Payable – Ending Salaries Payable	
+ Salaries Expense	
	= xxx
(d) Cash Payments for Purchase of Prepaid Assets	
Ending Prepaid Rent, Prepaid Insurance etc + Expired Rent, Expired Insurance etc – Beginning Prepaid Rent, Prepaid Insurance etc.	
	= xxx
(e) Interest Payments	
Beginning Interest Payable – Ending Interest Payable	
+ Interest Expense	
	= xxx
(f) Income Tax Payments	
Beginning Income Tax Payable – Ending Income Tax Payable	
+ Income Tax Expense	
	= xxx
(g) Other Receipts and Payments There may be receipts and payments other than those discussed above.	

(ii) Indirect Method: In indirect method, the net income figure from the income statement is used to calculate the amount of net cash flow from operating activities. Since income statement is prepared on accrual basis in which revenue is recognised when earned and not when received therefore net income does not represent the net cash flow from operating activities and is necessary to adjust EBIT for those items which effect net income although no actual cash has been paid or received against them.

Indirect Method :Following is the indirect method formula which is used to calculate cash flow from operating activities

img src="https://farm1.staticflickr.com/654/22629407825_879ca2b55e_o.png" width="491" height="335" alt="ncert-solutions-for-class-12-accountancy-part-2-chapter-6-cash-flow-statement-laq-2-t2">

Question 3. Explain the major cash inflows and outflows from investing activities.

Answer

Cash Flows from Investing Activities: The next step in building cash flow statement is to look at money a company spent on new capital investments. If a company capitalizes an investment, then that outflow of money does not show up on the income statement. That's because accounting rules allow the company to depreciate (expense) the cost of the investment over time.

From a practical standpoint, if a company purchase an asset such as new plant equipment or machinery, then they most likely paid for that asset in cash. When monpy leaves a company, we have an outflow of cash that we need to show in our statement.

Example In this example, let's say 'X' Company purchased a new computer system for Rs. 15,00,000 along with an assembly line machine for Rs. 20,00,000. These were the only two capital investments made by 'X' Company for the year. In this example, the company was also required to buy a new Machinery worth Rs. 5,00,000 into a special decommissioning fund. Normally, a company might show one line item for the capital investments and label that line item as additions to plant. In this example, we are going to show these items separately

Cash Flows from Investing Activities	(₹)
Purchase of New Computer	(15,00,000)
Purchase of Assembly Line Machine	(20,00,000)
Purchase of New Machinery	(5,00,000)
Net Cash used in Investing Activities	(40,00,000)

In the above example, we saw that the company made investment in fixed assets and used Rs.40,00,000.

Question 4. Explain the major Cash inflows and outflows from financing activities.

Answer

Cash Flows from Financing Activities :The final category of adjustments we need to address on a statement of cash flows is money raised by financing activities. As was the case with cash from operations, we can have both positive and negative adjustments to cash flow depending on the financing activities the company is engaged during the year.

Typical adjustments appearing here include changes in long and short term debt (issuing and redemption), issuing of preferred stock, issuing of common stock, retirement of stock, and stock dividends paid in cash.

Example In our example, 'X' Company decided to raise Rs. 2,50,000 by issuing common stock. They also issued around Rs.5,00,000 in preference share, and redeemed around Rs. 3,00,000 in long term debt. Finally, they paid a cash

Net Cash Flows from Financing Activities	(₹)
Issuance of Common Stock	2,50,000
Issue of Preference Shares	5,00,000
Redemption of Long Term Debt	(3,00,000)
Net Cash Provided by (Used in) Financing Activities	(2,00,000)
Net Cash Provided by Financing Activities	2,50,000

In this example, 'X' Company used less money in their financing activities than they generated during the year.

NUMERICAL QUESTIONS

Question 1. 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 receivable increased during the year by Rs. 40,000 and bills payable also increased by Rs. 60,000. Compute the cash flow from operating activities by the indirect approach.

Answer

Cash Flow from Operating Activities as on March 31, 2007

Particulars	Amt. (₹)	Amt. (₹)
Net Profit During the Year		5,00,000
Items to be Adjusted		
(+) Depreciation	2,00,000	
(-) Gain on Sale of Assets	(50,000)	1,50,000
Operating Profit before Working Capital Changes		6,50,000
(+) Increase in Bills Payable	60,000	
(-) Increase in Bills Receivable	(40,000)	20,000
Net Cash from Operations		6,70,000

Question 2. From the information given below, you are required to prepare the cash paid for the inventory

Particulars	(₹)
Inventory in the Beginning	40,000
Purchase	1,60,000
Inventory in the End	38,000
Inventory Creditors in the Beginning	14,000
Inventory Creditors in the End	14,500

Answer

Dr		Creditor's Account				Cr	
Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Cash (Balancing Figure)		1,59,500		By Balance b/d		14,000
	To Balance c/d		14,500		By Purchase		1,60,000
			1,74,000				1,74,000

Cash paid for inventory amounts to Rs. 1,59,500

Note : Purchase is considered to be credit purchase. Inventory in beginning and end has no effect.

Question 3. For each of the following transactions, calculate the resulting cash flow and state the nature of cash flow viz, operating, investing and financing.

- Acquired machinery for Rs. 2,50,000 paying 20% down and executing a bond for the balance payable.
- Paid Rs. 2,50,000 to acquire shares in Informa Tech and received a dividend of Rs.50,000 after acquisition.
- Sold machinery of original cost Rs. 2,00,000 with an accumulated depreciation of Rs. 1,60,000 for Rs. 60,000.

Answer (a) Related to investing activity ₹ 50,000 as part payment.

$$\text{Working Note } 2,50,000 \times \frac{20}{100} = 50,000 \text{ (outflow)}$$

- Related to investing activity. Acquiring shares in Informa Tech is an investment and dividend received on it is also part of same (Rs. 2,50,000-50,000= Rs. 2,00,000 outflow).
- Related to investing activity. It is treated as sale of investment. Rs. 60,000 inflow and Rs. 20,000 as profit on sale of investment as operating activity.

Question 4. The following is the profit and loss account of Yamuna Limited

Yamuna Limited Profit and Loss Account

For the year ended March 31, 2007

Particulars	Amt. (₹)	Amt. (₹)
Sales		10,00,000
Cost of Goods Sold		
Opening Stock	2,50,000	
Purchase	5,00,000	
	7,50,000	
(-) Closing Stock	2,00,000	5,50,000
Gross Profit		4,50,000
Operating Expenses		3,00,000
Net Profit		1,50,000

Additional Informations

- Trade debtors decrease by Rs. 30,000 during the year.
- Prepaid expenses increase by Rs. 5,000 during the year.
- Trade creditors decrease by Rs. 15,000 during the year.
- Outstanding expenses increased by Rs. 3,000 during the year.
- 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	Amt. (₹)	Amt. (₹)
Net Profit Earned During the Year		1,50,000
Items to be Added		
Depreciation		25,000
Operating Profit before Working Capital Changes		1,75,000
(+) Increase in Current Liabilities		
Outstanding Expenses	3,000	
(+) Decrease in Current Assets		
Trade Debtors	30,000	
Stock (Decrease)	50,000	83,000
(-) Decrease in Current Liabilities		
Trade Creditors	15,000	
(-) Increase in Current Assets		
Prepaid Expenses	5,000	(20,000)
Net Cash from Operations		2,38,000

Question 5. Compute cash from operations from

(i) Profit for the year 2010-11 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, 2010 and 2011 are as follows

Particulars	March 31, 2010 (₹)	March 31, 2011 (₹)
Debtors	10,000	12,000
Provision for Doubtful Debts	1,000	1,200
Bills Receivable	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

Particulars	March 31, 2010 (₹)	March 31, 2011 (₹)
Prepaid Expenses	2,000	1,000
Accrued Income	3,000	4,000
Income Received in Advance	2,000	1,000

Prepare of cash flow statement from summary cash account.

Answer

Cash Flow from Operating Activities
as on March 31, 2010

Particulars	Amt. (₹)	Amt. (₹)
Net Profit for the Year 2010-11		10,000
Items to be Added		
Depreciation		2,000
Operating Profit before Working Capital Changes		12,000
(+) Increase in Current Liabilities		
Provision for Doubtful Debts	200	
Bills Payable	1,000	
Creditors	1,000	
Outstanding Expenses	500	
(+) Decrease in Current Assets		
Bills Receivable	1,000	
Prepaid Expenses	1,000	4,700
(-) Increase in Current Assets		
Debtors	2,000	
Inventories	3,000	
Short Term Investments	2,000	
Accrued Income	1,000	
(-) Decrease in Current Liabilities		
Income Received in Advance	1,000	(9,000)
Net Cash from Operations		7,700

Question 6. 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.....

Liabilities	2010 (₹)	2011 (₹)	2010 (₹)	2011 (₹)
			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 Informations

- (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, 2011.
- (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

Particulars	Amt. (₹)	Amt. (₹)
Cash Inflow		
Proceeds from Sale of Patents	1,00,000	
Proceeds from 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

Dr **Patents Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Balance b/d		2,80,000		By Profit and Loss (Written off)		40,000
	To Profit and Loss		20,000		By Bank Sale-Balancing figure)		1,00,000
	(Profit on Sale)				By Balance c/d		1,60,000
			3,00,000				3,00,000

Dr **Machinery Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Balance b/d		10,20,000		By Depreciation		1,40,000
	To Bank (Purchase-Balancing Figure)		4,40,000		BY Bank		50,000
	(Profit on Sale)				By Profit and Loss (Loss on Sale)		30,000
			14,60,000		By Balance c/d		12,40,000
							14,60,000

Working Note Machine costing Rs. 1,40,000 less depreciation Rs. 60,000, present value Rs. 80,000 sold for Rs. 50,000 i.e., loss on sale Rs. 30,000.

Dr **10% Long Term Investment Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Balance b/d		60,000		By Bank (Balancing Figure)		1,00,000
	To Bank		1,80,000		By Balance c/d		1,60,000
	To Profit and Loss (Profit on Sale)		20,000				2,60,000
			2,60,000				2,60,000

Note: Any income received on investment is a part of investments like dividend, interest or rent received.

Question 7. From the following Balance Sheet of Mohan Ltd, prepare cash flow statement.

Balance Sheet of Rajeshwar Limited

as on.....

Liabilities	2010 (₹)	2011 (₹)	Assets	2010 (₹)	2011 (₹)
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	Debtors	1,00,000	60,000
Accumulated Depreciation	80,000	1,00,000	Bills 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		Amt. (₹)	Amt. (₹)
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

Particulars		Amt. (₹)	Amt. (₹)
	Adjustments		
	Depreciation	70,000	
	Loss on Sale of Machine	10,000	80,000
	Operating Profit before Working Capital Changes		1,90,000
	(+) Decrease in Current Assets		
	Debtors	40,000	40,000
			2,30,000
	(-) Increase in Current Assets		
	Stock	20,000	
	Bills Receivable	10,000	
	(-) Decrease in Current Liabilities		
	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
	Purchase 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)
	(+) Cash and Cash Equivalents in the Beginning		90,000
E.	Cash and Cash Equivalents at the End		30,000

Dr Fixed Assets Account Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Balance b/d		4,00,000		By Bank		20,000
	To Bank (Purchase-Balancing Figure)		2,80,000		By Profit and Loss		10,000
					(Loss on Sale)		50,000
					By Accumulated Depreciation		6,00,000
			6,80,000		By Balance c/d		6,80,000

Dr Accumulated Depreciation Account Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Fixed Assets		50,000		By Balance b/d		80,000
	To Balance c/d		1,00,000		By Profit and Loss		70,000
			1,50,000		(Balancing Figure)		1,50,000

Question 8. From the following Balance Sheet of Tiger Super Steel Ltd, prepare Cash flow statement.

Balance Sheet

Liabilities	2010 (₹)	2011 (₹)	Assets	2010 (₹)	2011 (₹)
Equity Share Capital	80,000	1,20,000	Goodwill	24,000	18,800
10% Preference Share 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	Debtors	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 Charged on Land and building Rs. 20,000 and plant Rs. 10,000 during the year.

Answer

Cash Flow Statement of Tiger Super Steels Ltd

Particulars		Amt. (₹)	Amt. (₹)
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 Items		36,000
	Items to be Added		
	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

Particulars		Amt. (₹)	Amt. (₹)
	(+) Increase in Current Liabilities		
	Bills Payable	7,200	
	(+) Decrease in Current Assets	2,800	10,000
	Stock		81,200
	(-) Increase in Current Assets		
	Debtors	13,200	
	(-) Decrease in Current Liabilities		
	Outstanding Expenses	800	(14,000)
	Cash Generated from Operating Activities		67,200
	(-) Income Tax paid		(11,200)
	Net Cash from Operating Activities		56,000
B.	Cash Flow from Investing Activities		
	Purchase of Plant		(50,400)
	Purchase 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		4,400
	(+) Cash and Cash Equivalents in the Beginning		6,800
E.	Cash and Cash Equivalents at the End		11,200

Dr **Plant Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Balance b/d		36,000		By Depreciation		10,000
	To Bank A/c (Purchase-Balancing Figure)		50,400		By Balance c/d		76,400
			86,400				86,400

Question 9. Prepare cash flow statement from the following information

Balance Sheet

Liabilities	2010 (₹)	2011 (₹)	Assets	2010 (₹)	2011 (₹)
Equity Share Capital	5,00,000	7,00,000	Cash/Bank	3,00,000	4,00,000
8% Debentures	6,00,000	4,00,000	Sundry Debtors	4,00,000	6,00,000
Profit and Loss Account	3,00,000	5,00,000	Stock	5,00,000	6,00,000
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 charged on plant amount to Rs. 80,000.

Answer

Cash Flow Statement

	Particulars	Amt. (₹)	Amt. (₹)
A.	Cash Flow from Operating Activities		
	Net Profit as per the Balance Sheet (5,00,000 – 3,00,000)		2,00,000
	Items to be Added		
	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
	(+) Increase in Current Liabilities		
	Creditors	3,00,000	3,00,000
			6,80,000
	(-) Increase in Current Assets		
	Sundry Debtors	2,00,000	
	Stock	1,00,000	(3,00,000)
	Net Cash from Operations		3,80,000

	Particulars	Amt. (₹)	Amt. (₹)
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 Equivalents (A + B + C)		1,00,000
	(+) Cash and Cash Equivalents in the Beginning		3,00,000
E.	Cash and Cash Equivalents at the End		4,00,000

Dr		Plant Account				Cr	
Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Balance b/d		5,00,000		By Depreciation		80,000
	To Bank (Purchase-Balancing Figure)		2,80,000		By Balance c/d		7,00,000
			7,80,000				7,80,000

Question 10. From the following information, prepare cash flow statement for Yogeta Ltd.

Balance Sheet

Liabilities	2010 (₹)	2011 (₹)	Assets	2010 (₹)	2011 (₹)
Equity Share Capital	2,00,000	3,00,000	Bank	45,000	-
Preference Share Capital	-	1,00,000	Cash	5,000	-
Profit and Loss Account	1,00,000	2,00,000	Stock	1,00,000	1,70,000
Loan	2,00,000	-	Bills Receivable	50,000	1,00,000
Provision for Taxation	30,000	50,000	Fixed Assets	4,00,000	7,00,000
Bills Payable	50,000	70,000			
Bank Overdraft	-	1,00,000			
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 amounted to Rs. 60,000.

Answer

Cash Flow Statement of Yogeta Ltd

Particulars	Amt. (₹)	Amt. (₹)
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	
Net Profit before Taxation and Extraordinary Items		2,10,000
Items to be Added		
Depreciation	50,000	50,000
Operating Profit before Working Capital Changes		2,60,000
(+) Increase in Current Liabilities		
Bills Payable	20,000	20,000
		2,80,000
(-) Increase in Current Assets		
Stock	70,000	
Bills Receivable	50,000	(1,20,000)
Cash Generated from Operating Activities		1,60,000
(-) Income Tax Paid		(40,000)
Net Cash from Operations		1,20,000
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets		(3,50,000)
Net Cash used in Investing Activities		
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
(-) Repayment of Loan		(2,00,000)
Dividend Paid		(50,000)
Net Cash from Financing Activities		80,000
D. Net Decrease in Cash and Cash Equivalents (A + B + C)		(1,50,000)
(+) Cash and Cash Equivalents in the Beginning		50,000
E. Cash and Cash Equivalents at the End (Bank Overdraft)		(1,00,000)

Dr				Cr			
Provision for Taxation Account							
Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Bank				By Balance c/d		30,000
	(Balancing Figure)		40,000				
	To Balance b/d		50,000		By Profit and Loss		60,000
			90,000				90,000

Dr				Cr			
Fixed Assets Account							
Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Balance b/d		4,00,000		By Depreciation		50,000
	To Bank		3,50,000		By Balance c/d		7,00,000
			7,50,000				7,50,000

Question 11. Following is the Financial Statement of Garima Ltd. Prepare cash flow statement.

Balance Sheet
as on 31st December, 2011

Liabilities	2010 (₹)	2011 (₹)	Assets	2010 (₹)	2011 (₹)
Equity Share Capital	2,00,000	3,00,000	Plant and Machinery	2,00,000	3,64,000
Preference Share Capital	80,000	1,40,000	Stock	60,000	1,60,000
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 December 31, 2011

Receipts	Amt. (₹)	Payments	Amt. (₹)
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, 2011(Direct Method)

Particulars	Amt. (₹)	Amt. (₹)
A. Cash Flow from Operating Activities		4,40,000
Cash Receipts from Customers		
(-) Cash Paid to Suppliers	3,92,000	
(-) Cash Paid for Expenses	52,000	(4,44,000)
Cash Outflow from Operating Activities		(4,000)
(-) 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 Share Capital		1,00,000
Issue of Preference Share Capital		60,000
		1,60,000
(-) Dividend Paid		(4,000)
Net Cash from Financing Activities		1,56,000
D. Net decrease in Cash and Cash Equivalents (A + B + C)		(52,000)
(+) 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		Amt. (₹)	Amt. (₹)
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
Items to be Added			
Depreciation		32,000	32,000
Operating Profit before Working Capital Changes			64,000
(+) Increase in Current Liabilities			
Creditors		1,00,000	
(-) Increase in Current Assets			
Prepaid Expenses		(8,000)	
Stock		(1,00,000)	
Debtors		(60,000)	(68,000)
Cash Generated from Operating Activities			(4,000)
(-) Income Tax Paid			(8,000)
Net Cash used in Operating Activities			(12,000)
B. Cash Flow from Investing Activities			
Purchase of Fixed Assets			(1,96,000)
Net Cash used in Investing Activities			(1,96,000)
Cash Flow from Investing Activities			
Issue of Equity Shares			1,00,000
Issue of Preference Shares			60,000
(-) Dividend Paid			(4,000)
Net Cash from Financing Activities			1,56,000
D. Net decrease in Cash and Cash equivalents (A + B + C)			(52,000)
(+) Cash and Cash Equivalents in the Beginning			80,000
E. Cash and Cash Equivalents at the end			28,000

Dr **Provision for Tax Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Bank (Balancing Figure)		8,000		By Balance c/d		4,000
	To Balance b/d		12,000		By Profit and Loss		16,000
			20,000				20,000

Dr **Plant and Machinery Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Balance b/d		2,00,000		By Depreciation		32,000
	To Bank (Purchase-Balancing Figure)		1,96,000		By Balance c/d		3,64,000
			3,96,000				3,96,000

- (i) Cash receipts from the customers
Sales + Opening Debtors – Closing Debtors
= 5,00,000 + 20,000 – 80,000 = ₹ 4,40,000
- (ii) Cash paid to the creditors
Purchase + Opening Creditors – Closing Creditors
= 4,92,000 + 56,000 – 156,000 = ₹ 3,92,000
- (iii) Cash paid for expenses
Salaries + Prepaid Expenses at the end – Prepaid Expenses in the beginning
= 44,000 + 16,000 – 8,000 = ₹ 52,000

Note Debtors and creditors account can also be prepared to calculate cash receipt or cash paid.

Question 12. Following is the Balance Sheet of Computer India Ltd

Balance Sheet

Liabilities	2010 (₹)	2011 (₹)	Assets	2010 (₹)	2011 (₹)
Equity Share Capital	40,000	50,000	Fixed Assets	41,000	40,000
Profit and Loss Account	1,000	1,200	(-) 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 ? 600.

Answer

Cash Flow Statement

Particulars	Amt. (₹)	Amt. (₹)
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
Items to be Added		
Provision for Depreciation	4,000	
Interest Paid on Debentures	600	4,600
Operating Profit before Working Capital Changes		15,300
Adjustments:		
(-) Increase in Current Assets		
Debtors	4,000	
Stock	5,000	
Prepaid Expenses	200	(9,200)
		6,100
(-) Decrease in Current Liabilities		
Creditors	1,000	(1,000)
Cash Generated from Operating Activities		5,100
(-) Income Tax Paid		(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
(-) Dividend Paid		(5,000)
(-) Interest Paid		(600)
Net Cash from Financing Activities		4,900
D. Net Increase in Cash and Cash Equivalents (A + B + C)		8,000
(+) Cash and Cash Equivalents in the beginning		
Cash	1,200	
Bank Overdraft	(12,500)	(11,300)
E. Cash and Cash Equivalents at the end		
Cash	3,500	
Bank Overdraft	(6,800)	(3,300)