Chapter 6: Cash Flow Statement

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Exercise 6.1 — Short & Long Answer Questions

Q1 What is a Cash flow statement?

A Cash Flow Statement is a financial statement that shows the inflows and outflows of cash and cash equivalents during a specified period. Prepared as per AS-3 (Revised), it classifies all cash transactions into three activities — operating, investing, and financing — to present a clear picture of how cash was generated and used by the enterprise during the accounting period.

Q2 How are the various activities classified (as per AS-3 revised) while preparing cash flow statement?

AS-3 (Revised) classifies all cash flows into three activities: (1) Operating Activities — principal revenue-producing activities of the enterprise (e.g., cash receipts from sale of goods, cash payments to suppliers and employees, income tax payments); (2) Investing Activities — acquisition and disposal of long-term assets and investments not included in cash equivalents (e.g., purchase/sale of fixed assets, purchase/sale of investments, interest and dividends received); (3) Financing Activities — activities that result in changes in the size and composition of the owners' capital and borrowings (e.g., proceeds from issue of shares/debentures, repayment of borrowings, payment of dividends and interest).

Q3 State the objectives of cash flow statement.

The objectives of a Cash Flow Statement are: (i) To provide information about the cash inflows and outflows of an enterprise during the period; (ii) To assess the enterprise's ability to generate cash and cash equivalents and the timing and certainty of their generation; (iii) To enable users to develop models to assess and compare the present value of future cash flows of different enterprises; (iv) To determine the liquidity and solvency position of the enterprise; (v) To help management in planning and controlling cash requirements; (vi) To facilitate comparison of operating performance between enterprises by eliminating the effects of different accounting treatments for the same transactions.

Q4 What are the objectives of preparing cash flow statement?

The objectives of preparing a Cash Flow Statement are: (i) To provide information about actual cash receipts and payments during the period, classified by operating, investing, and financing activities; (ii) To assess the enterprise's capacity to meet its obligations and pay dividends from internally generated funds; (iii) To help predict future cash flows and requirements; (iv) To evaluate the reasons for differences between net income and net cash flow from operations; (v) To assess the impact of investing and financing transactions on the financial position of the enterprise; (vi) To provide a basis for evaluating management's ability to generate cash and manage cash resources efficiently.

Q5 State the meaning of the terms: (i) Cash Equivalents, (ii) Cash flows.

(i) Cash Equivalents: 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. An investment qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Examples include treasury bills, commercial paper, and money market funds. Bank overdrafts repayable on demand and forming an integral part of cash management are also treated as cash equivalents. (ii) Cash Flows: Inflows and outflows of cash and cash equivalents. An inflow refers to the receipt of cash or cash equivalents from any source, while an outflow refers to the payment or use of cash or cash equivalents. Cash flows exclude movements between items that constitute cash or cash equivalents (e.g., transfer from bank deposit to cash in hand is not a cash flow).

Q6 Prepare a format of cash flow from operating activities.

Cash Flow from Operating Activities (Indirect Method): Net Profit before Tax and Extraordinary Items XX; Add: Non-cash charges (Depreciation, Amortisation, Preliminary Expenses written off, Goodwill written off) XX; Add: Non-operating losses (Loss on sale of fixed assets) XX; Less: Non-operating incomes (Profit on sale of fixed assets, Dividend received, Interest received) (XX); Operating Profit before Working Capital Changes XX; Add: Decrease in Current Assets / Increase in Current Liabilities XX; Less: Increase in Current Assets / Decrease in Current Liabilities (XX); Cash Generated from Operations XX; Less: Income Tax Paid (XX); Net Cash from Operating Activities XX.

Q7 State clearly what would constitute the operating activities for each of the following enterprises: (i) Hotel (ii) Film production house (iii) Financial enterprise (iv) Media enterprise (v) Steel manufacturing unit (vi) Software development business unit.

(i) Hotel: Cash received from guests for accommodation, food, and beverages; cash paid to suppliers for provisions, linen, housekeeping supplies; wages paid to hotel staff; utility payments; repairs and maintenance payments. (ii) Film production house: Cash received from distributors/exhibitors for films sold or licensed; cash paid to artistes, technicians, directors; cash paid for sets, costumes, equipment rentals; royalties received/paid. (iii) Financial enterprise: Cash flows from loans advanced and repayments received; interest received on loans; premiums received and claims paid (for insurance companies); cash from trading in securities (buying/selling) constitutes their principal operating activity. (iv) Media enterprise: Cash from subscription fees, advertising revenue; cash paid to content creators, journalists; printing and broadcasting costs; distribution expenses. (v) Steel manufacturing unit: Cash from sale of steel products; cash paid for raw materials (iron ore, coking coal); wages to factory workers; power and fuel costs; maintenance expenses. (vi) Software development business unit: Cash received from clients for software projects and services; salaries paid to software developers; costs for software tools and licences; server and infrastructure maintenance costs.

Q8 "The nature/type of enterprise can change altogether the category into which a particular activity may be classified." Do you agree? Illustrate your answer.

Yes, the statement is correct. The classification of an activity as operating, investing, or financing depends on the nature of the enterprise. For example: (i) Interest Received — For a non-financial enterprise (e.g., manufacturing company), interest received on surplus funds is an investing activity cash flow. But for a financial enterprise (e.g., a bank), lending and receiving interest is its principal revenue-producing activity, so interest received is an operating activity. (ii) Dividend Received — For a non-financial company, dividends received from investments are classified as investing activities. For a financial enterprise that holds shares as part of its trading portfolio, dividends received are operating activities. (iii) Purchase and Sale of Securities — For a manufacturing company, buying and selling long-term investments is an investing activity. For a stockbroker or investment company, buying and selling securities is their core business, making it an operating activity. Thus, the same transaction is classified differently depending on the type of enterprise, confirming that the nature of the enterprise is the determining factor.

Q9 Describe the procedure to prepare Cash Flow Statement.

The procedure to prepare a Cash Flow Statement is: (1) Determine Cash from Operating Activities: Start with net profit before tax. Add back non-cash charges (depreciation, amortisation, goodwill written off). Add losses and deduct gains on non-operating items (e.g., loss/profit on sale of fixed assets). Adjust for working capital changes: add decreases in current assets or increases in current liabilities; deduct increases in current assets or decreases in current liabilities. Deduct income tax paid to arrive at Net Cash from Operating Activities. (2) Determine Cash from Investing Activities: Add proceeds from sale of fixed assets and long-term investments; interest received; dividends received. Deduct cash paid for purchase of fixed assets, long-term investments, and intangibles. The net result is Net Cash from Investing Activities. (3) Determine Cash from Financing Activities: Add proceeds from issue of shares, debentures, and long-term loans. Deduct repayment of loans, redemption of debentures/preference shares, payment of dividends, and interest paid on borrowings. The net result is Net Cash from Financing Activities. (4) Compute Net Increase/Decrease in Cash: Sum of net cash from all three activities equals the net change in cash and cash equivalents. (5) Verify: Add opening cash and cash equivalents to the net change; the result must equal closing cash and cash equivalents as per the balance sheet.

Q10 Describe "Indirect" method of ascertaining Cash Flow from operating activities.

Under the Indirect Method (also called the Reconciliation Method), cash flow from operating activities is computed by adjusting net profit before tax for non-cash items and changes in working capital. The steps are: (1) Start with Net Profit before Tax and Extraordinary Items. (2) Add back non-cash charges deducted in arriving at net profit: depreciation on fixed assets, amortisation of intangibles, goodwill written off, preliminary expenses written off, discount on issue of shares/debentures written off, provision for doubtful debts. (3) Add non-operating losses (e.g., loss on sale of fixed assets) that were charged to profit but are actually investing/financing flows. (4) Deduct non-operating incomes (e.g., profit on sale of fixed assets, dividend received, interest received on investments) that were credited to profit but are investing/financing inflows. (5) After these adjustments, the result is Operating Profit before Working Capital Changes. (6) Adjust for changes in working capital: ADD when current assets decrease or current liabilities increase (these represent sources of cash); DEDUCT when current assets increase or current liabilities decrease (these represent uses of cash). (7) The result is Cash Generated from Operations. (8) Deduct Income Tax Paid (net of refunds) to arrive at Net Cash from Operating Activities. The indirect method is widely used as it starts from figures readily available in financial statements and reconciles net profit to net cash.

Q11 Explain the major Cash Inflows and outflows from investing activities.

Investing activities relate to the acquisition and disposal of long-term assets and investments not included in cash equivalents. Major Cash Inflows from Investing Activities: (i) Proceeds from sale of fixed assets (tangible and intangible); (ii) Proceeds from sale of long-term investments (shares, debentures of other companies); (iii) Repayment of loans and advances made to third parties; (iv) Interest received on loans advanced and debentures held; (v) Dividends received from subsidiaries, associates, or other investments; (vi) Rent received from investment property. Major Cash Outflows from Investing Activities: (i) Cash paid for purchase of fixed assets including capital work-in-progress; (ii) Cash paid for purchase of intangible assets (patents, goodwill); (iii) Cash paid for purchase of long-term investments; (iv) Loans and advances made to third parties; (v) Acquisition cost paid for shares of another company to acquire control (net of cash acquired in a business combination).

Q12 Explain the major Cash Inflows and outflows from financing activities.

Financing activities are activities that result in changes in the size and composition of the owners' capital and borrowings of the enterprise. Major Cash Inflows from Financing Activities: (i) Proceeds from issue of equity shares and preference shares (at face value plus premium); (ii) Proceeds from issue of debentures, bonds, and long-term notes; (iii) Proceeds from long-term loans and borrowings from banks and financial institutions; (iv) Proceeds from short-term borrowings not forming part of cash equivalents. Major Cash Outflows from Financing Activities: (i) Repayment of long-term loans, debentures, and bonds at maturity or on buy-back; (ii) Redemption of preference shares; (iii) Buy-back of equity shares; (iv) Payment of cash dividends on equity and preference shares; (v) Payment of interest on borrowings (under AS-3, this may be classified as operating or financing); (vi) Finance lease payments representing the principal portion.

Exercise 6.2 — Numerical Questions

Q1 Anand Ltd., arrived at a net income of Rs. 5,00,000 for the year ended March 31, 2017. Depreciation for the year was Rs. 2,00,000. There was a profit of Rs. 50,000 on assets sold which was transferred to Statement of Profit and Loss account. Trade Receivables increased during the year Rs. 40,000 and Trade Payables also increased by Rs. 60,000. Compute the cash flow from operating activities by the indirect approach.

SOLUTION

Cash Flow from Operating Activities (Indirect Method)

Net Income	Rs. 5,00,000
Add: Depreciation (non-cash charge)	Rs. 2,00,000
Less: Profit on sale of assets (non-operating)	(Rs. 50,000)

Working Capital Adjustments:

Less: Increase in Trade Receivables	(Rs. 40,000)
Add: Increase in Trade Payables	Rs. 60,000
Net Cash from Operating Activities	Rs. 6,70,000

Verification:
5,00,000 + 2,00,000 − 50,000 − 40,000 + 60,000 = Rs. 6,70,000 ✓

Q2 From the information given below you are required to calculate the cash paid for the inventory: Inventory in the beginning Rs. 40,000; Credit Purchases Rs. 1,60,000; Inventory in the end Rs. 38,000; Trade payables in the beginning Rs. 14,000; Trade payables in the end Rs. 14,500.

SOLUTION

Step 1: Calculate increase in Trade Payables
Increase = Rs. 14,500 − Rs. 14,000 = Rs. 500

Step 2: Cash Paid for Inventory
Cash paid = Credit Purchases − Increase in Trade Payables
Cash paid = Rs. 1,60,000 − Rs. 500 = Rs. 1,59,500

Rationale: An increase in trade payables means less cash was paid than goods purchased on credit.
Cross-check: Inventory consumed = 40,000 + 1,60,000 − 38,000 = Rs. 1,62,000
Cash paid to suppliers = 1,60,000 − 500 = Rs. 1,59,500

Q3 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% by cheque 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.

SOLUTION

(a) Acquired machinery for Rs. 2,50,000 paying 20% by cheque:
Cash paid = 20% × Rs. 2,50,000 = Rs. 50,000
Balance Rs. 2,00,000 executed as bond = non-cash transaction (not a cash flow)
Nature: Investing Activity — Cash Outflow of Rs. 50,000

(b) Paid Rs. 2,50,000 for shares in Informa Tech.; received dividend Rs. 50,000:
Cash paid for shares = Rs. 2,50,000 (investing outflow)
Dividend received after acquisition = Rs. 50,000 (investing inflow)
Net Cash Outflow from Investing = Rs. 2,50,000 − Rs. 50,000 = Rs. 2,00,000
Nature: Investing Activity — Net Cash Outflow of Rs. 2,00,000

(c) Sold machinery: Original cost Rs. 2,00,000; Accum. depr. Rs. 1,60,000:
Book value = Rs. 2,00,000 − Rs. 1,60,000 = Rs. 40,000
Sale proceeds = Rs. 60,000 (profit on sale = Rs. 20,000)
Cash inflow = Rs. 60,000 (the actual proceeds received)
Nature: Investing Activity — Cash Inflow of Rs. 60,000

Q4 The following is the Profit and Loss Account of Yamuna Limited: Revenue from Operations Rs. 10,00,000; Cost of Materials Consumed Rs. 50,000; Purchases of Stock-in-trade Rs. 5,00,000; Other Expenses Rs. 3,00,000; Total Expenses Rs. 8,50,000; Profit before tax Rs. 1,50,000. Additional information: (i) Trade receivables decrease by Rs. 30,000 during the year. (ii) Prepaid expenses increase by Rs. 5,000 during the year. (iii) Trade payables increase by Rs. 15,000 during the year. (iv) Outstanding expenses payable increased by Rs. 3,000 during the year. (v) Other expenses included depreciation of Rs. 25,000. Compute net cash from operations for the year ended March 31, 2017 by the indirect method.

SOLUTION

Cash Flow from Operating Activities (Indirect Method)	Rs.
Profit before tax	1,50,000
Add: Non-cash charges — Depreciation (included in Other Expenses)	25,000
Working Capital Adjustments:	
Add: Decrease in Trade Receivables	30,000
Less: Increase in Prepaid Expenses (current asset)	(5,000)

Cash Flow from Operating Activities (Indirect Method)	Rs.
Add: Increase in Trade Payables	15,000
Add: Increase in Outstanding Expenses Payable	3,000
Net Cash from Operating Activities	2,18,000

Verification: 1,50,000 + 25,000 + 30,000 − 5,000 + 15,000 + 3,000 = Rs. 2,18,000 ✓

Q5 Compute cash from operations from the following figures: (i) Profit for the year 2016-17 is a sum of Rs. 10,000 after providing for depreciation of Rs. 2,000. (ii) The current assets and current liabilities of the business for the year ended March 31, 2016 and 2015 are as follows: Trade Receivables: 14,000 / 15,000; Provision for Doubtful Debts: 1,000 / 1,200; Trade Payables: 13,000 / 15,000; Inventories: 5,000 / 8,000; Other Current Assets: 10,000 / 12,000; Expenses payable: 1,000 / 1,500; Prepaid Expenses: 2,000 / 1,000; Accrued Income: 3,000 / 4,000; Income received in advance: 2,000 / 1,000.

SOLUTION

Note: March 31, 2016 = Opening balances; March 31, 2017 = Closing balances

Net Profit after depreciation	Rs. 10,000
Add: Depreciation (non-cash)	Rs. 2,000
Net Profit before depreciation	Rs. 12,000

Working Capital Adjustments:	
Trade Receivables: increased 15,000−14,000 = 1,000	(Rs. 1,000)
Prov. for Doubtful Debts: increased 1,200−1,000 = 200	Rs. 200
Trade Payables: increased 15,000−13,000 = 2,000	Rs. 2,000
Inventories: increased 8,000−5,000 = 3,000	(Rs. 3,000)
Other Current Assets: increased 12,000−10,000 = 2,000	(Rs. 2,000)
Expenses payable: increased 1,500−1,000 = 500	Rs. 500
Prepaid Expenses: decreased 2,000−1,000 = 1,000	Rs. 1,000
Accrued Income: increased 4,000−3,000 = 1,000	(Rs. 1,000)
Income received in advance: decreased 2,000−1,000 = 1,000	(Rs. 1,000)
Total WC adjustments	(Rs. 4,300)

Cash from Operations = 12,000 − 4,300 | Rs. 7,700

Verification: 12,000 + (−1,000+200+2,000−3,000−2,000+500+1,000−1,000−1,000) = 12,000 − 4,300 = Rs. 7,700 ✓

Q6 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 as on 31 March 2016 and 2017: Tangible assets (Machinery) Rs. 10,20,000 / 12,40,000; Intangible assets (Note 2 — Goodwill + Patents) Rs. 3,80,000 / 4,60,000; Non-current investments Rs. 2,60,000 / 3,60,000. Notes: Goodwill 1,00,000/3,00,000; Patents 2,80,000/1,60,000; 10% LT investments 60,000/1,60,000; Land 1,00,000/1,00,000; Amartex shares 1,00,000/1,00,000. Additional info: (a) Patents written off Rs. 40,000; some patents sold at profit Rs. 20,000. (b) Machine costing Rs. 1,40,000 (depr. Rs. 60,000) sold for Rs. 50,000; depreciation charged Rs. 1,40,000. (c) On March 31, 2016, 10% investments purchased for Rs. 1,80,000; some sold at profit Rs. 20,000; interest received March 31, 2017. (d) Amartex paid dividend @ 10%. (e) Land let out; rent received Rs. 30,000.

SOLUTION

Working Note 1 — Machinery Account (Net values)

Opening balance (net)	10,20,000
Add: Machinery purchased (bal.)	4,40,000
Less: Book value of machine sold	80,000 (cost 1,40,000 − depr 60,000)
Less: Depreciation for year	1,40,000
Closing balance (net)	12,40,000

∴ Machinery purchased = 12,40,000 − 10,20,000 + 80,000 + 1,40,000 = Rs. 4,40,000

Working Note 2 — Patents Account

Opening balance	2,80,000
Less: Written off	40,000
Less: Cost of patents sold	80,000 (bal. fig.)
Closing balance	1,60,000

∴ Cost of patents sold = 2,80,000 − 40,000 − 1,60,000 = Rs. 80,000
Sale proceeds of patents = Rs. 80,000 + Rs. 20,000 (profit) = Rs. 1,00,000

Working Note 3 — Goodwill Account

Opening balance	1,00,000
Add: Goodwill purchased (bal.)	2,00,000
Closing balance	3,00,000

∴ Goodwill purchased (investing outflow) = Rs. 2,00,000

Working Note 4 — 10% LT Investments Account

Opening balance	60,000
Add: Purchased	1,80,000
Less: Cost of investments sold	80,000 (bal. fig.)
Closing balance	1,60,000

∴ Cost of investments sold = 60,000 + 1,80,000 − 1,60,000 = Rs. 80,000
Sale proceeds = Rs. 80,000 + Rs. 20,000 (profit) = Rs. 1,00,000
Interest received = 10% × Rs. 60,000 = Rs. 6,000

Cash Flows from Investing Activities | Rs.
Cash outflows:

Purchase of Machinery	(4,40,000)
Purchase of Goodwill	(2,00,000)
Purchase of 10% LT Investments	(1,80,000)

Cash inflows:

Sale of Machinery	50,000
Sale of Patents	1,00,000
Sale of Investments	1,00,000
Interest received (10% on Rs. 60,000)	6,000
Dividend from Amartex (10% on Rs. 1,00,000)	10,000
Rent from land	30,000
Net Cash used in Investing Activities	(5,24,000)

Q7 From the following Balance Sheet of Mohan Ltd., prepare cash flow Statement. Balance Sheet as at 31st March 2016 and 2017: Equity share capital 2,00,000/3,00,000; Reserves and Surplus 2,20,000/2,70,000; Long-term borrowings (9% Bank Loan) 1,00,000/80,000; Trade payables 1,40,000/1,20,000; Fixed assets (Net) 3,20,000/5,00,000; Inventories 1,30,000/1,50,000; Trade receivables 1,20,000/90,000; Cash 90,000/30,000. Fixed assets Gross 4,00,000/6,00,000; Accum. depr. 80,000/1,00,000. Additional Information: Machine costing Rs. 80,000 (accum. depr. Rs. 50,000) sold for Rs. 20,000. 9% bank loan Rs. 20,000 repaid. Proposed dividend for 2015-16 Rs. 60,000.

SOLUTION

Working Note 1 — Net Profit

Closing R&S − Opening R&S + Proposed dividend paid = 2,70,000 − 2,20,000 + 60,000 = Rs. 1,10,000

Working Note 2 — Fixed Assets (Gross) Account

Opening gross	4,00,000
Add: Purchases (bal.)	2,80,000
Less: Cost of machine sold	80,000
Closing gross	6,00,000

∴ Purchases = 6,00,000 − 4,00,000 + 80,000 = Rs. 2,80,000

Working Note 3 — Accumulated Depreciation Account

Opening accum. depr.	80,000
Add: Depreciation for year (bal.)	70,000
Less: Depr. on machine sold	50,000
Closing accum. depr.	1,00,000

∴ Depreciation charged = 1,00,000 − 80,000 + 50,000 = Rs. 70,000

Book value of machine sold = 80,000 − 50,000 = Rs. 30,000
Sale proceeds = Rs. 20,000 → Loss on sale = Rs. 10,000

Interest on 9% Loan (on opening balance 1,00,000 × 9%) = Rs. 9,000
(Reclassified to Financing Activities — added back in CFO, deducted in CFF)

A. Cash Flow from Operating Activities	Rs.
Net Profit before tax	1,10,000
Add: Depreciation	70,000
Add: Loss on sale of machine	10,000
Add: Interest on loan (reclassified to CFF)	9,000

A. Cash Flow from Operating Activities	Rs.
Working Capital Adjustments:	
Less: Decrease in Trade Payables (1,40,000→1,20,000)	(20,000)
Less: Increase in Inventories (1,30,000→1,50,000)	(20,000)
Add: Decrease in Trade Receivables (1,20,000→90,000)	30,000
Net Cash from Operating Activities (A)	1,89,000

B. Cash Flow from Investing Activities	Rs.
Sale of machine	20,000
Less: Purchase of fixed assets	(2,80,000)
Net Cash used in Investing Activities (B)	(2,60,000)

C. Cash Flow from Financing Activities	Rs.
Proceeds from issue of equity shares (3,00,000−2,00,000)	1,00,000
Less: Repayment of bank loan	(20,000)
Less: Dividend paid (2015-16)	(60,000)
Less: Interest on 9% loan paid	(9,000)
Net Cash from Financing Activities (C)	11,000

Net Decrease in Cash (A + B + C)	(60,000)
Add: Opening Cash (Bank)	90,000
Closing Cash (Bank)	30,000

Reconciliation: 1,89,000 − 2,60,000 + 11,000 = −60,000; 90,000 − 60,000 = 30,000 ✓

Q8 From the following Balance Sheets of Tiger Super Steel Ltd., prepare Cash Flow Statement. Balance Sheet as at 31st March 2014 and 31st March 2017: Share capital (Equity 1,20,000/80,000; 10% Preference 20,000/40,000) 1,40,000/1,20,000; Reserves and surplus (GR 12,000/8,000; P&L 26,400/18,400) 38,400/26,400; Trade payables (Bills payable) 21,200/14,000; Outstanding expenses 2,400/3,200; Provision for taxation 12,800/11,200; Tangible assets (L&B 20,000/40,000; Plant 76,400/36,000) 96,400/76,000; Intangible assets 18,800/24,000; Non-current investments 14,000/4,000; Inventories 31,200/34,000; Trade receivables 43,200/30,000; Cash 11,200/6,800. Additional Information: Proposed dividend 2016-17 Rs. 15,600 and 2015-16 Rs. 11,200. Depreciation on L&B Rs. 20,000 and Plant Rs. 10,000.

SOLUTION

Working Note 1 — Net Profit
Closing P&L − Opening P&L + Transfer to GR = 26,400 − 18,400 + 4,000 = Rs. 12,000
(Note: 2016-17 proposed dividend of Rs. 15,600 is a note disclosure, not in balance sheet)
(Short-term provisions: opening 11,200 = 2015-16 dividend provision; closing 12,800 = tax provision)

Working Note 2 — Land & Building Account (Net)
Opening 40,000 − Depreciation 20,000 = Closing 20,000; No purchases made.

Working Note 3 — Plant Account (Net)
Plant purchases = 76,400 − 36,000 + 10,000 = Rs. 50,400

Working Note 4 — Intangible Assets
Opening 24,000 → Closing 18,800: Amortised = Rs. 5,200 (non-cash, add back in CFO)

A. Cash Flow from Operating Activities	Rs.
Net Profit	12,000
Add: Depreciation (L&B 20,000 + Plant 10,000)	30,000
Add: Intangible assets amortised	5,200
Working Capital Adjustments:	
Add: Increase in Trade Payables (21,200−14,000)	7,200
Less: Decrease in Outstanding Expenses (3,200→2,400)	(800)
Add: Increase in Provision for Taxation (new tax prov.)	12,800
Add: Decrease in Inventories (34,000→31,200)	2,800
Less: Increase in Trade Receivables (30,000→43,200)	(13,200)
Net Cash from Operating Activities (A)	56,000

(Note: 2015-16 dividend paid = Rs. 11,200 → shown as CFF outflow)

B. Cash Flow from Investing Activities	Rs.
Less: Purchase of Plant	(50,400)
Less: Purchase of Non-current Investments (14,000−4,000)	(10,000)
Net Cash used in Investing Activities (B)	(60,400)

C. Cash Flow from Financing Activities	Rs.
Proceeds from issue of Equity shares (1,20,000−80,000)	40,000
Less: Redemption of 10% Preference shares (40,000−20,000)	(20,000)
Less: Dividend paid (2015-16 provision paid)	(11,200)
Net Cash from Financing Activities (C)	8,800

Net Increase in Cash (A + B + C)	4,400
Add: Opening Cash	6,800
Closing Cash	11,200

Reconciliation: 56,000 − 60,400 + 8,800 = 4,400; 6,800 + 4,400 = 11,200 ✓

Q9 From the following information, prepare cash flow statement. Balance Sheet as at 31st March 2015 and 2014: Share capital 7,00,000/5,00,000; Reserve and surplus 4,70,000/2,50,000; 8% Debentures 4,00,000/6,00,000; Trade payables 9,00,000/6,00,000; Total 24,70,000/19,50,000. Tangible fixed assets 7,00,000/5,00,000; Intangible–Goodwill 1,70,000/2,50,000; Inventories 6,00,000/5,00,000; Trade Receivables 6,00,000/4,00,000; Cash 4,00,000/3,00,000; Total 24,70,000/19,50,000. Additional Information: Depreciation on Plant Rs. 80,000.

SOLUTION

Working Note 1 — Net Profit
Closing R&S − Opening R&S = 4,70,000 − 2,50,000 = Rs. 2,20,000

Working Note 2 — Goodwill amortised = 2,50,000 − 1,70,000 = Rs. 80,000 (non-cash, add back)

Working Note 3 — Fixed Assets (Net)
FA purchases = 7,00,000 − 5,00,000 + 80,000 (depr.) = Rs. 2,80,000

Interest on 8% Debentures = 8% × Rs. 6,00,000 = Rs. 48,000
(Reclassified to Financing Activities — added back in CFO, deducted in CFF)

A. Cash Flow from Operating Activities	Rs.
Net Profit	2,20,000

A. Cash Flow from Operating Activities	Rs.
Add: Goodwill amortised	80,000
Add: Depreciation on Plant	80,000
Add: Interest on 8% Debentures (reclassified to CFF)	48,000
Working Capital Adjustments:	
Add: Increase in Trade Payables (6,00,000→9,00,000)	3,00,000
Less: Increase in Inventories (5,00,000→6,00,000)	(1,00,000)
Less: Increase in Trade Receivables (4,00,000→6,00,000)	(2,00,000)
Net Cash from Operating Activities (A)	4,28,000

B. Cash Flow from Investing Activities	Rs.
Less: Purchase of Fixed Assets	(2,80,000)
Net Cash used in Investing Activities (B)	(2,80,000)

C. Cash Flow from Financing Activities	Rs.
Proceeds from issue of Share Capital (7,00,000−5,00,000)	2,00,000
Less: Redemption of 8% Debentures (6,00,000−4,00,000)	(2,00,000)
Less: Interest on 8% Debentures paid	(48,000)
Net Cash used in Financing Activities (C)	(48,000)

Net Increase in Cash (A + B + C)	1,00,000
Add: Opening Cash	3,00,000
Closing Cash	4,00,000

Reconciliation: 4,28,000 − 2,80,000 − 48,000 = 1,00,000; 3,00,000 + 1,00,000 = 4,00,000 ✓

Q10 From the following Balance Sheet of Yogeta Ltd., prepare cash flow statement. Balance Sheet as at 31st March 2017 and 2016: Share capital (Equity 3,00,000/2,00,000; Preference 1,00,000/nil) 4,00,000/2,00,000; Reserve and surplus 2,00,000/1,00,000; Long-term borrowings (8% LT loan nil/2,00,000; 9% Rahul 1,50,000/20,000) 1,50,000/2,20,000; Bank overdraft 1,00,000/nil; Trade payables 70,000/50,000; Provision for taxation 50,000/30,000; Total 9,70,000/6,00,000. Fixed assets Tangible 7,00,000/4,00,000; Inventories 1,70,000/1,00,000; Trade receivables 1,00,000/50,000; Cash nil/50,000; Total 9,70,000/6,00,000. Additional Information: Net profit after depreciation of Rs. 50,000 = Rs. 1,50,000. Dividend paid Rs. 50,000. Tax provision created Rs. 60,000. 8% loan repaid March 31, 2017. Additional 9% loan Rs. 1,30,000 from Rahul on April 01, 2016.

SOLUTION

Working Note 1 — Net Profit
Closing R&S − Opening R&S + Dividend paid = 2,00,000 − 1,00,000 + 50,000 = Rs. 1,50,000 ✓

Working Note 2 — Tax Provision Account
Opening provision 30,000 + Created 60,000 − Closing 50,000 = Tax paid Rs. 40,000

Working Note 3 — Fixed Assets (Net)
Purchases = 7,00,000 − 4,00,000 + 50,000 (depr.) = Rs. 3,50,000

Opening cash equivalents = Rs. 50,000 (cash) − Rs. 0 (OD) = Rs. 50,000
Closing cash equivalents = Rs. 0 (cash) − Rs. 1,00,000 (OD) = (Rs. 1,00,000)
Net decrease in Cash Equivalents = Rs. 1,50,000

A. Cash Flow from Operating Activities	Rs.
Net Profit before tax (1,50,000 + Tax provision 60,000)	2,10,000
Add: Depreciation	50,000
Working Capital Adjustments:	
Add: Increase in Trade Payables (50,000→70,000)	20,000
Less: Increase in Inventories (1,00,000→1,70,000)	(70,000)
Less: Increase in Trade Receivables (50,000→1,00,000)	(50,000)
Cash Generated from Operations	1,60,000
Less: Tax paid (from provision account)	(40,000)
Net Cash from Operating Activities (A)	1,20,000

B. Cash Flow from Investing Activities	Rs.
Less: Purchase of Fixed Assets	(3,50,000)
Net Cash used in Investing Activities (B)	(3,50,000)

C. Cash Flow from Financing Activities	Rs.
Proceeds from issue of Equity shares (3,00,000−2,00,000)	1,00,000
Proceeds from issue of Preference shares	1,00,000
Proceeds from 9% Loan from Rahul (new)	1,30,000
Less: Repayment of 8% Long-term Loan	(2,00,000)
Less: Dividend paid	(50,000)
Net Cash from Financing Activities (C)	80,000

Net Decrease in Cash & Cash Equivalents (A + B + C)	(1,50,000)
Add: Opening Cash & Equivalents (Cash 50,000 − OD 0)	50,000
Closing Cash & Equivalents (Cash 0 − OD 1,00,000)	(1,00,000)

Reconciliation: 1,20,000 − 3,50,000 + 80,000 = −1,50,000; 50,000 − 1,50,000 = (1,00,000) ✓

Note: Bank overdraft is treated as a cash equivalent (negative), not a financing flow. The NCERT answer key prints CFI as Rs. 13,50,000 (a misprint for Rs. 3,50,000) and CFO Rs. 1,49,500; the working above reconciles exactly to the net change in cash & equivalents.

Q11 Following is the Balance sheet of Garima Ltd., prepare cash flow statement. Balance Sheet as at 31st March 2017 and 2016: Share capital (Equity 3,00,000/2,00,000; Preference 1,40,000/80,000) 4,40,000/2,80,000; Reserve and surplus 40,000/28,000; Trade payables 1,56,000/56,000; Provision for taxation 12,000/4,000; Total 6,48,000/3,68,000. Fixed assets Tangible 3,64,000/2,00,000; Inventories 1,60,000/60,000; Trade receivables 80,000/20,000; Cash 28,000/80,000; Prepaid expenses 16,000/8,000; Total 6,48,000/3,68,000. Notes: R&S = Opening 28,000 + Profit 16,000 − Interim dividend 4,000 = 40,000. Additional Information: Depreciation charged Rs. 32,000.

SOLUTION

Working Note 1 — Net Profit and Interim Dividend
From Note 2: Net Profit = Rs. 16,000; Interim dividend paid = Rs. 4,000

Working Note 2 — Fixed Assets (Net)
Purchases = 3,64,000 − 2,00,000 + 32,000 (depr.) = Rs. 1,96,000

A. Cash Flow from Operating Activities	Rs.
Net Profit	16,000
Add: Depreciation	32,000

A. Cash Flow from Operating Activities	Rs.
Working Capital Adjustments:	
Add: Increase in Trade Payables (56,000→1,56,000)	1,00,000
Add: Increase in Provision for Taxation (4,000→12,000)	8,000
Less: Increase in Inventories (60,000→1,60,000)	(1,00,000)
Less: Increase in Trade Receivables (20,000→80,000)	(60,000)
Less: Increase in Prepaid Expenses (8,000→16,000)	(8,000)
Net Cash used in Operating Activities (A)	(12,000)

B. Cash Flow from Investing Activities	Rs.
Less: Purchase of Fixed Assets	(1,96,000)
Net Cash used in Investing Activities (B)	(1,96,000)

C. Cash Flow from Financing Activities	Rs.
Proceeds from Equity shares (3,00,000−2,00,000)	1,00,000
Proceeds from Preference shares (1,40,000−80,000)	60,000
Less: Interim Dividend paid	(4,000)
Net Cash from Financing Activities (C)	1,56,000

Net Decrease in Cash (A + B + C)	(52,000)
Add: Opening Cash	80,000
Closing Cash	28,000

Reconciliation: −12,000 − 1,96,000 + 1,56,000 = −52,000; 80,000 − 52,000 = 28,000 ✓

Q12 From the following Balance Sheet of Computer India Ltd., prepare cash flow statement. (Rs. in '000) Share capital 52,000/40,000; Reserve and surplus (P&L 7,000/6,000; GR 2,500/2,000) 9,500/8,000; 10% Debentures 6,500/6,000; Short-term borrowings (Bank OD) 6,800/12,500; Trade payables 11,000/12,000; Provision for taxation 4,200/3,000; Total 90,000/81,500. Fixed assets (Gross 42,000/41,000; Less depr. 15,000/11,000; Net) 27,000/30,000; Inventories 35,000/30,000; Trade receivables 24,000/20,000; Cash 3,500/1,200; Prepaid expenses 500/300; Total 90,000/81,500. Additional Information: Proposed dividend for 2015-16 is Rs. 2,50,00,000.

SOLUTION

Opening net cash (cash − OD) = 1,200 − 12,500 = (11,300)
Closing net cash (cash − OD) = 3,500 − 6,800 = (3,300)
Net increase in cash equivalents = 8,000 ('000)

Working Note 1 — Net Profit
Closing P&L − Opening P&L = 7,000 − 6,000 = 1,000
Add: Transfer to General Reserve = 2,500 − 2,000 = 500
Net Profit = Rs. 1,500 ('000)

Working Note 2 — Depreciation
Increase in accum. depr. = 15,000 − 11,000 = 4,000 ('000) (no asset sales given)

Working Note 3 — Fixed Assets (Gross)
Purchases = 42,000 − 41,000 = 1,000 ('000) (increase in gross assets)

A. Cash Flow from Operating Activities	Rs. ('000)
Net Profit	1,500
Add: Depreciation	4,000
Working Capital Adjustments:	
Less: Increase in Trade Payables (net decrease)	(1,000)
Add: Increase in Provision for Taxation	1,200
Less: Increase in Inventories (30,000→35,000)	(5,000)
Less: Increase in Trade Receivables (20,000→24,000)	(4,000)
Less: Increase in Prepaid Expenses	(200)
Net Cash from Operating Activities (A)	(3,500)

B. Cash Flow from Investing Activities	Rs. ('000)
Less: Purchase of Fixed Assets	(1,000)
Net Cash used in Investing Activities (B)	(1,000)

C. Cash Flow from Financing Activities	Rs. ('000)
Proceeds from issue of Share Capital (52,000−40,000)	12,000
Proceeds from issue of 10% Debentures (6,500−6,000)	500
Net Cash from Financing Activities (C)	12,500

Net Increase in Cash Equivalents (A + B + C)	8,000
Opening Cash Equivalents (cash − OD)	(11,300)
Closing Cash Equivalents (cash − OD)	(3,300)

Reconciliation: −3,500 − 1,000 + 12,500 = 8,000 ✓

The above working reconciles precisely to the change in cash equivalents (including bank OD). Note: The NCERT key states CFO Rs. 2,100, CFI Rs. 1,000, CFF Rs. 4,900 (in '000); the working above treats the bank overdraft as a cash equivalent and reconciles to the net change in cash & equivalents.