

# Cash Flow Statements

## Learning Objectives:

- Meaning of Cash Flow Statement
- Cash and Cash Equivalents
- Preparation of cash flow statement by direct method and indirect method.
- Reporting Cash Flows from Operating Activities
- Reporting Cash Flows from Investing and Financing Activities

### 1. Meaning of Cash Flow Statement

Cash Flow Statements is a statements which presents Inflows and Outflows of cash and cash equivalents during specified period. It is a part of the financial statements.

### 2. Cash and Cash Equivalents

Cash and cash equivalent includes:

- cash in hand
- cash at bank
- drafts or cheques in hand and
- demand deposits with banks
- 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. It includes short term investments or deposits or advances which can be realised within 3 months (intention for realisation is critical). Sometimes such short term investments are referred to as marketable securities.

### Example 1

X Ltd. purchased debentures of ₹10 lacs of Y Ltd., which are redeemable within three months.

### Solution:

As per AS 3 on 'Cash flow Statement', cash and cash equivalents consists of cash in hand, balance with banks and short-term, highly liquid investments (Intended to be realised within 3 months). If investment, of ₹10 lacs, made in debentures is for short-term period then it is an item of 'cash equivalents'.

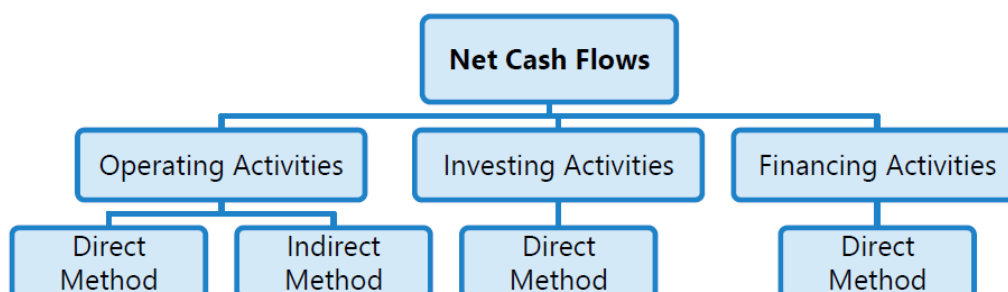
However, if investment of ₹10 lacs made in debentures is for long-term period then as per AS 3, it should be shown as cash flow from investing activities.

### 3. Classification of Cash Flows

**Cash Flows** are inflows and outflows of cash and cash equivalents and are classified into following activities:

- Cash Flow from Operating Activities.
- Cash Flow from Investing Activities.
- Cash Flow from Financing Activities.

#### Classification of Cash Flows



### 4. Operating activities

Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

Examples of cash flows from operating activities are:

Inflows	Outflows
Cash Sales	Cash Purchases
Collection from customers	Payment to creditors
Commission received	Expenses paid (excluding interest)
Royalty / Other revenue received	Income tax paid
Tax refund	GST / Other taxes paid
Insurance claim received for loss of stock	Cash defalcation
Lottery received	Cash lost by fire
Receipts relating to derivatives held for trading	Payments relating to derivatives held for trading

#### Direct Method (A)

Cash Sale	xxx
Collection from Debtors	xxx
Cash Purchases	(xx)
Payment to Creditors	(xx)
Payment for Operating Expenses	(xx)
<b>Cash Generated from Operations</b>	<b>xxx</b>
Taxes Paid	(xx)
<b>Cash Flow before extra-ordinary items</b>	<b>xxx</b>
Extra-ordinary items	xxx
<b>Net Cash from Operating Activities</b>	<b>xxx</b>

### Indirect Method (A)

Net Profit before Tax and Extraordinary Items (NPBT&EOI)	xxx
<u>Adjustments for <b>Non Cash</b> and <b>Non-Operating</b> items:</u>	
<b>Add:</b>	xxx
Depreciation / Amortisation	xxx
Loss on issue, Prelim. Exp, share issue exp. Underwriter comm. w/off in PL	xxx
Interest Expense	xxx
Loss on sale of asset / loss on sale of investment	xxx
<b>Less:</b>	
Interest income	(xxx)
Dividend income	(xxx)
Rent income	(xxx)
Profit on sale of asset / loss on sale of investment	(xxx)
Liability written back	<u>(xxx)</u>
<b>Operating Profit before Working Capital changes</b>	<b>xxx</b>
<u>Adjustments for Working Capital Changes:</u>	
<b>Add:</b>	
Decrease in Inventory/ Debtor/ BR/ Prepaid expense	xxx
Increase in Creditor/ BP/ Outstanding expense	xxx
<b>Less:</b>	
Increase in Inventory/ Debtor/ BR/ Prepaid expense	(xxx)
Decrease in Creditor/ BP/ Outstanding expense	<u>(xxx)</u>
<b>Cash generated from Operations</b>	<b>xxx</b>
Taxes Paid (Net of Refund)	<u>(xxx)</u>
<b>Cash Flow before Extraordinary items</b>	<b>xxx</b>
Extraordinary items	<u>xxx</u>
<b>Net Cash flow from / used in Operating Activities</b>	<b><u>xxx</u></b>

### Calculation of Net Profit before Tax and Extraordinary Items (NPBT&EOI)

Closing Surplus in P/L	XX
Less: Opening Surplus in P/L	<u>(XX)</u>
<b>Change in surplus</b>	<b>XX</b>
<b>Add:</b>	
Dividend DECLARED during the year (Equity / Preference / Final / Interim)	XX
Transferred to Reserves	XX
Tax provided during the year	<u>XX</u>
<b>Net Profit before Tax and Extraordinary Items</b>	<b><u>XX</u></b>

## 5. Investing activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

<b>Inflows</b>	<b>Outflows</b>
Proceeds from sale of asset/ investments	Payment on purchase of asset/ investment
Interest received	Loan given
Dividend received	Capital gain tax paid
Rent received	Purchase of shares in group entities
Repayment of loan given	Expenditure on Capital work in progress
Insurance claim received for loss of asset	
Grant received for capital assets	

### **Cash flow from Investing Activities (B)**

Proceeds from sale of assets / investments	xxx
Income from Investments received like interest / dividend / rent received	xxx
Repayment of loan given	xxx
Grant received for capital assets	xxx
Insurance claim received for loss of asset	xxx
Payment on purchase of assets / investment	(xxx)
Loan given	(xxx)
Purchase of shares in subsidiaries / associates / joint ventures	(xxx)
Expenditure on capital work in progress	(xxx)
<b>Net Cash from Investing Activities</b>	<b>xxx</b>

## 6. Financing activities

Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

<b>Inflows</b>	<b>Outflows</b>
Loan taken	Payment on buyback of equity shares
Proceeds from issue of shares/ debentures (including premium amount and net of share issue expenses/ underwriting commission, if any)	Payment on redemption of preference shares / debentures
	Interest paid
	Dividend paid (Equity / Preference / Final / Interim) and CDT / DDT pain on it.
Public deposits accepted	Loan repaid
Increase in overdraft balance	Public deposits repaid
	Decrease in overdraft balance

### Cash flow from Financing Activities (C)

Proceeds from Issue of Equity shares / Preference shares / Debentures (including premium amount and net of share issue expenses/ underwriting commission, if any)	xxx
Loan taken / Public deposits accepted	xxx
Increase in overdraft balance	xxx
Buyback of equity shares / redemption of preference capital / debentures	(xxx)
Decrease in overdraft balance	(xxx)
Interest paid / dividend paid	(xxx)
<b>Net Cash from Financing Activities</b>	<b><u>xxx</u></b>
TOTAL (A + B + C)	xxx
Add : Cash & Cash Equivalent at the beginning of the period	<u>xxx</u>
<b>Cash &amp; Cash equivalent at the end of the period</b>	<b><u>xxx</u></b>

### Example 2

Activity	Inflow / Outflow / No Flow	Operating / Investing / Financing / Cash Equivalent
Purchase of Machinery		
Proceeds from issuance of equity share capital		
Cash Sales		
Proceeds from long-term borrowings		
Cheques collected from Trade receivables		
Cash receipts from Trade receivables		
Trading Commission received		
Purchase of investment		
Redemption of Preference Shares		
Cash Purchases		
Proceeds from sale of investment		
Purchase of goodwill		
Cash paid to suppliers		
Interim Dividend paid on equity shares		
Wages and salaries paid		
Proceed from sale of patents		
Interest received on debentures held as investment		
Interest paid on Long-term borrowings		
Office and Administration Expenses paid		

Manufacturing Overheads paid		
Dividend received on shares held as investments		
Rent Received on property held as investment		
Selling and distribution expense paid		
Income tax paid		
Dividend paid on Preference shares		
Underwritings Commission paid		
Rent paid		
Brokerage paid on purchase of investments		
Goods lost by fire		
Machinery purchased by issue of shares		
Creditor settled by accepting Bill		
Cash deposited into bank		
Interest received on marketable securities		
Interest paid by financial enterprise		
Deposit with bank for a term of 2 years		
Insurance claim received for loss of machinery by fire.		
Bad debts written off		
Corporate income tax paid		
Payment of Advance tax		
Payment of capital gain tax		
Loans & advances to Subsidiary and interest earned		
Invest in Subsidiary and dividend received		
Bank Overdraft obtained		
Cash Credit		
Highly liquid Marketable Securities (without risk of change in value)		
Refund of Income Tax received		

**Important Notes:**

1. In case of financial entities, interest and dividend received are considered operating activities and interest paid is also considered operating activities.
2. Interest received by Financial institutions like banks,NBFC, etc. classify it as Operating Activity (For others it is investing activity)
3. Interest paid by Financial institutions like Banks,NBFC etc., classify it as Operating Activities ( For others it is Financing activity )
4. Dividend Paid is always classified as Financing Activity for all the entities.
5. Investment in Subsidiary or group Company is classified as Investing Activities.

6. Taxes (including Self-Assessment Tax, TDS, Withholding tax) should be classified as follows :
- Corporation Dividend Tax is **Financing Activity**  
 Tax on investment income is **Investing Activity**  
 Other taxes paid are **Operating Activity**
7. Extraordinary Items are reported as separate item in Cash Flows.
- Voluntary Retirement Compensation Paid → Operating Items
  - Law suit payment/received → Operating Item
  - Insurance Claim on loss of PPE → Investing Activity
8. Government Grant received for Capital Assets / Fixed Assets is Investing Activity and as capital contribution is Financial Activity.

### Question 1

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31<sup>st</sup> March, 2011 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

#### Summary Cash Account for the year ended 31.3.2011

	₹ 000		₹ 000
Balance on 1.4.2010	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Asset	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2011	150
	3,250		3,250

### Solution

#### Cash Flow Statement of X Ltd. for the year ended 31<sup>st</sup> March, 2011

	₹ 000	₹ 000
<b>Cash flows from operating activities</b>		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash generated from operating activities		250
<b>Cash flows from investing activities</b>		

Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at the beginning of the year		50
Cash at the end of the year		150

## Question 2

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31<sup>st</sup> March, 2011 with the help of the following information:

- (1) Company sold goods for cash only.
- (2) Gross Profit Ratio was 30% for the year, gross profit amounts to ₹3,82,500.
- (3) Opening inventory was lesser than closing inventory by ₹35,000.
- (4) Wages paid during the year ₹4,92,500.
- (5) Office and selling expenses paid during the year ₹75,000.
- (6) Dividend paid during the year ₹30,000.
- (7) Bank loan repaid during the year ₹2,15,000 (included interest ₹15,000).
- (8) Trade payables on 31<sup>st</sup> March, 2010 exceed the balance on 31<sup>st</sup> March, 2011 by ₹25,000.
- (9) Amount paid to trade payables during the year ₹4,60,000.
- (10) Tax paid during the year amounts to ₹65,000 (Provision for taxation as on 31.03.2011 ₹45,000).
- (11) Investments of ₹7,00,000 sold during the year at a profit of ₹20,000.
- (12) Depreciation on fixed assets amounts to ₹85,000.
- (13) Plant and machinery purchased on 15<sup>th</sup> November, 2010 for ₹2,50,000.
- (14) Cash and Cash Equivalents on 31<sup>st</sup> March, 2010 ₹2,00,000.
- (15) Cash and Cash Equivalents on 31<sup>st</sup> March, 2011 ₹6,07,500.

## Solution

**M/s MNT Ltd.**  
**Cash Flow Statement for the year ended 31<sup>st</sup> March, 2011**  
**(Using direct method)**

Particulars	₹	₹
<b>Cash flows from Operating Activities</b>		
Cash sales (₹ 3,82,500/.30)		12,75,000
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	(10,27,500)
Cash generated from operations before taxes		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
<b>Cash flows from investing activities</b>		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		4,70,000
<b>Cash flows from financing activities</b>		
Bank loan repayment (including interest)	(2,15,000)	
Dividend paid	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
<b>Cash and cash equivalents at beginning of the period</b>		2,00,000
<b>Cash and cash equivalents at end of the period</b>		6,07,500

### Question 3

On the basis of the following information prepare a Cash Flow Statement for the year ended 31<sup>st</sup> March, 2021 (Using direct method):

- (i) Total sales for the year were ₹ 597 crores out of which cash sales amounted to ₹393 crores.
- (ii) Receipts from credit customers during the year, totalled ₹ 201 crores.
- (iii) Purchases for the year amounted to ₹ 330 crores out of which credit purchases were 80%.  
 Balance in creditors as on  
 1.4.2020                      ₹ 126 crores  
 31.3.2021                     ₹ 138 crores
- (iv) Suppliers of other consumables and services were paid ₹ 28.5 crores in cash.
- (v) Employees of the enterprises were paid 30 crores in cash.
- (vi) Fully paid preference shares of the face value of ₹ 48 crores were redeemed. Equity

shares of the face value of ₹ 30 crores were allotted as fully paid up at premium of 20%.

- (vii) Debentures of ₹ 30 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
- (viii) ₹ 39 crores were paid by way of income tax.
- (ix) A new machinery costing ₹ 15 was purchased.
- (x) Investment costing ₹ 27 crores were sold at a loss of ₹ 3 crores.
- (xi) Dividends totalling ₹ 22.5 crores was also paid.
- (xii) Debenture interest amounting ₹ 3 crore was paid.
- (xiii) On 31<sup>st</sup> March 2020, Balance with Bank and Cash on hand totalled ₹ 3 crores.

### Solution :

Cash flow statement (using direct method) for the year ended 31<sup>st</sup> March, 2021

	(₹ in crores)	(₹ in crores)
Cash flow from operating activities		
Cash sales	393	
Cash collected from credit customers	201	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(376.5)	
Cash from operations	217.5	
Less: Income tax paid	(39)	
Net cash generated from operating activities		178.5
Cash flow from investing activities		
Payment for purchase of Machine	(15)	
Proceeds from sale of investments	24	
Net cash used in investing activities		9
Cash flow from financing activities		
Redemption of Preference shares	(48)	
Proceeds from issue of Equity shares	36	
Debenture interest paid	(3)	
Dividend Paid	<u>(22.5)</u>	
Net cash used in financing activities		(37.5)
Net increase in cash and cash equivalents		150
Add: Cash and cash equivalents as on 1.04.2020		3
Cash and cash equivalents as on 31.3.2021		153

### Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

	(₹ in crores)
Opening Balance in creditors Account	126

Add: Purchases (330x .8)	264
Total	390
Less: Closing balance in Creditors Account	138
Cash paid to suppliers of goods	252
Add: Cash purchases (330x .2)	66
Total cash paid for purchases to suppliers (a)	318
Add: Cash paid to suppliers of other consumables and services (b)	28.5
Add: Payment to employees (c)	30
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	376.5

#### Question 4

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.2011 from the following information:

- (1) Sales for the year amounted to ₹135 crores out of which 60% was cash sales.
- (2) Purchases for the year amounted to ₹55 crores out of which credit purchase was 80%.
- (3) Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹22 crores.
- (4) The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹ 15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was ₹1.5 crores.
- (5) Dividend paid during the year amounted to ₹11.7 crores.
- (6) Investment costing ₹12 crores were sold at a profit of ₹2.4 crores.
- (7) ₹ 8 crores was paid towards income tax during the year.
- (8) A new plant costing ₹21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹12 crores but the vendor took over the old plant at a value of ₹10 crores only. The balance was paid in cash to the vendor.
- (9) The following balances are also provided:

	₹ in crores 1.4.2010	₹ in crores 31.3.2011
Debtors	45	50
Creditors	21	23
Bank	6	18.2

## Solution

**Gamma Ltd.**  
**Cash Flow Statement for the year ended 31<sup>st</sup> March, 2011**  
**(Using direct method)**

Particulars	₹ in crores	₹ in crores
Cash flows from operating activities		
Cash sales (60% of 135)	81	
Cash receipts from Debtors [45+ (135x40%) - 50]	49	
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers [21+ (55x80%) - 23]	(42)	
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	
Income tax paid	(8)	
Net cash generated from operating activities		29
Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 - 10)	(11)	
Net cash generated from investing activities		3.4
Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(11.7)	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

### Question 5

The following information was provided by PQR Ltd. for the year ended 31<sup>st</sup> March, 2019 :

- (1) Gross Profit Ratio was 25% for the year, which amounts to ₹ 3,75,000.
- (2) Company sold goods for cash only.
- (3) Opening inventory was lesser than closing inventory by ₹ 25,000.
- (4) Wages paid during the year ₹ 5,55,000.
- (5) Office expenses paid during the year ₹ 35,000.
- (6) Selling expenses paid during the year ₹ 15,000.
- (7) Dividend paid during the year ₹ 40,000 (including dividend distribution tax).

- (8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000)
- (9) Trade Payables on 31<sup>st</sup> March, 2018 were ₹ 50,000 and on 31<sup>st</sup> March, 2019 were ₹ 35,000.
- (10) Amount paid to Trade payables during the year ₹ 6,10,000
- (11) Income Tax paid during the year amounts to ₹ 55,000  
(Provision for taxation as on 31<sup>st</sup> March, 2019 ₹ 30,000).
- (12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.
- (13) Depreciation on furniture amounts to ₹ 40,000.
- (14) Depreciation on other tangible assets amounts to ₹ 20,000.
- (15) Plant and Machinery purchased on 15<sup>th</sup> November, 2018 for ₹ 3,50,000.
- (16) On 31<sup>st</sup> March, 2019 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.
- (17) Cash and Cash equivalents on 31<sup>st</sup> March, 2018 ₹ 2,25,000.
- Prepare cash flow statement for the year ended 31<sup>st</sup> March, 2019, using direct method & Calculate cash flow from operating activities, using indirect method.

**Solution :**

Cash Flow Statement for the year ended 31<sup>st</sup> March, 2019 (Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

‘Cash Flow from Operating Activities’ by indirect method

		₹
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables		
Increase in inventory	15,000	(40,000)
Cash generated from operations before taxes	<u>25,000</u>	2,85,000

**Working Note:** Calculation of net profit earned during the year

	₹	₹
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest paid	<u>5,000</u>	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

**Question 6**

Given below are the relevant extracts of the Balance Sheet and the Statement of Profit and Loss of ABC Ltd. along with additional information:

**Extract of Balance Sheet**

	Particulars	Notes	31.3.2011 (₹ in lakhs)	31.3.2010 (₹ in lakhs)
<b>1</b>	<b>Equity and Liabilities</b>			
	<b>Current liabilities</b>			
	(a) Trade Payables		250	230
	(b) Short term Provisions	1	200	180
(c) Other current liabilities	2	70	50	
<b>1</b>	<b>Assets</b>			
	<b>Current Assets</b>			
	(a) Inventories		200	180
	(b) Trade Receivables		400	250
(c) Other Current Assets	3	195	180	

**Statement of Profit and Loss of ABC Ltd.  
for the year ended 31<sup>st</sup> March, 2011**

	Particulars	Notes	₹ in lakhs
<b>I</b>	Revenue from operations		4,150
<b>II</b>	Other Income	4	<u>100</u>
<b>III</b>	Total income (I + II)		<b><u>4,250</u></b>
	<b>Expenses:</b>		
	Purchases of Stock-in-Trade		2,400
	Change in inventories of finished goods		(20)
	Employee benefits expense		800
	Depreciation expense		100
	Finance Cost		60
	Other expenses		200
<b>IV</b>	Total expenses		<u>3,540</u>
<b>V</b>	Profit before tax (III – IV)		710
<b>VI</b>	Tax expense: Current Tax		200
<b>VII</b>	Profit for the year from continuing operations		510

**Appropriations**

Balance of Profit and Loss account brought forward	50
Transfer to general reserve	200
Dividend paid	330

**Notes to accounts:**

		2011 (₹ in lakhs)	2010 (₹ in lakhs)
1	Short-Term Provisions: Provision for Tax	<u>200</u>	<u>180</u>
2	Other Current Liabilities: Outstanding wages Outstanding expenses Total	50 <u>20</u> <u>70</u>	40 <u>10</u> <u>50</u>
3	Other Current Assets: Advance tax	<u>195</u>	<u>180</u>
4	Other Income: Interest and dividend	<u>100</u>	
5	Finance cost: Interest	<u>60</u>	

Compute cash flow from operating activities using both direct and indirect method.

## Solution

### Cash Flows from Operating Activities

	₹ in lakhs	₹ in lakhs
<b>Using Direct Method</b>		
<b>Cash Receipts:</b>		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing Trade receivables (A)	4,150 + 250 - 400	<u>4,000</u>
<b>Cash payments:</b>		
Cash purchases & payment to Trade payables		
Purchases + Opening Trade payables – Closing Trade payables	2,400 + 230 - 250	2,380
Wages and salaries paid	800 + 40 - 50	790
Cash expenses	200 + 10 - 20	190
Taxes paid – Advance tax		195
(B)		<u>3,555</u>
Cash flow from operating activities (A – B)		<u>445</u>
<b>Using Indirect Method</b>		
Profit before tax		710
Add: Non-cash items : Depreciation		100
Add: Interest : Financing cash inflow		60
Less: Interest and Dividend : Investment cash Outflow		(100)
Less: Tax paid		(195)
<b>Working capital adjustments</b>		
Trade receivables	250 - 400	(150)
Inventories	180 - 200	(20)
Trade payables	250 - 230	20
Outstanding wages	50 - 40	10
Outstanding expenses	20 - 10	10
Cash flow from operating activities		<u>445</u>

### Question 7

Ryan Ltd provides you the following information at the year-end, March 31, 2011:

	₹	₹
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
		1,78,000
Operating Expenses (including Depreciation Expense of ₹37,000)		(1,47,000)
		31,000
Other Income / (Expenses):		
Interest Expense paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	
Loss on Sale of Plant	(3,000)	
		(8,000)
		23,000
Income tax		(7,000)
		16,000

#### Information available:

	31 <sup>st</sup> March 2011 (₹)	31 <sup>st</sup> March 2010 (₹)
Plant	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Inventory	1,44,000	1,10,000
Trade receivables	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Trade payables	50,000	43,000
Outstanding liabilities	12,000	9,000
Income taxes payable	3,000	5,000

#### Analysis of selected accounts and transactions during 2010-11

1. Purchased investments for ₹78,000.
2. Sold investments for ₹1,02,000. These investments cost ₹90,000.

3. Purchased plant assets for ₹1,20,000.
4. Sold plant assets that cost ₹10,000 with accumulated depreciation of ₹2,000 for ₹5,000.
5. Issued ₹1,00,000 of bonds at face value in an exchange for plant assets on 31<sup>st</sup> March, 2011.
6. Repaid ₹50,000 of bonds at face value at maturity.
7. Issued 15,000 shares of ₹10 each.
8. Paid cash dividends ₹8,000.

Prepare Cash Flow Statement as per AS-3 (Revised), using indirect method.

### Solution

**Ryan Ltd.**  
**Cash Flow Statement**  
**for the year ending 31<sup>st</sup> March, 2011**

	₹	₹
<b>Cash flows from operating activities</b>		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	
Operating profit before working capital changes	68,000	
Decrease in trade receivables	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in trade payables	7,000	
Increase in outstanding liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
Net cash generated from operating activities		47,000
<b>Cash flows from investing activities</b>		
Purchase of plant	(1,20,000)	
Sale of plant	5,000	
Purchase of investments	(78,000)	
Sale of investments	1,02,000	
Interest received	6,000	
Net cash used in investing activities		(85,000)

<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
Net cash from financing activities		<u>69,000</u>
<b>Net increase in cash and cash equivalents</b>		31,000
<b>Cash and cash equivalents at the beginning of the Period</b>		15,000
<b>Cash and cash equivalents at the end of the Period</b>		<u>46,000</u>

**Working Note:**

	₹
Income taxes paid:	
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	<u>5,000</u>
	12,000
Less: Income tax liability at the end of the year	<u>(3,000)</u>
	<u>9,000</u>

**Question 8**

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31<sup>st</sup> March, 2011:

	(₹ in lakhs)
Net Profit	25,000
Dividend paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to the Statement of Profit and Loss	20,000
Profit on sale of Investments	100
Carrying amount of Investment sold	27,765
Interest income received on investments	2,506
Interest expenses of the year	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,081

Purchase of Fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and bank balance	5,003
Closing cash and bank balance	6,988

Prepare the Cash Flow Statement for the year ended 31 March 2011 in accordance with AS 3. (Make necessary assumptions)

### Solution

**Star Oils Limited**  
**Cash Flow Statement**  
**for the year ended 31<sup>st</sup> March, 2011**

		(₹ in lakhs)
<b>Cash flows from operating activities</b>		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
<b>Cash flows from investing activities</b>		
Sale of assets (W.N.1)	145	
Sale of investments (27,765 + 100)	27,865	
Receipt of grant for capital projects	12	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	

Net cash used in investing activities		(22,622)
<b>Cash flows from financing activities</b>		
Proceeds from calls in arrear	2	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	<u>(8,535)</u>	27,502
Net increase in cash and cash equivalents		1,985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

**Working note:**

1. Book value of the assets sold	185
Less : Loss on sale of assets	<u>(40)</u>
Proceeds on sale	<u>145</u>

**Question 9**

The balance sheets of Sun Ltd. as at 31<sup>st</sup> March 2011 and 2010 were as:

	Particulars	Notes	2011 (₹)	2010 (₹)
	<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholder's funds</b>			
	(a) Share capital	1	60,000	50,000
	(b) Reserve & surplus	2	5,000	4,000
<b>2</b>	<b>Current liabilities</b>			
	(a) Trade Payables		4,000	2,500
	(b) Other current liabilities	3	-	1,000
	(c) Short term provision (provision for tax)			
	<b>Total</b>		1,500	1,000
			<b>70,500</b>	<b>58,500</b>
	<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>			
	(a) Property, Plant & Equipment	4	39,500	29,000

<b>2</b>	<b>Current assets</b>			
(a)	Current investments		2,000	1,000
(b)	Inventories		17,000	14,000
(c)	Trade receivables		8,000	6,000
(d)	Cash & cash equivalents	5	4,000	8,500
			<b>70,500</b>	<b>58,500</b>

### Notes to accounts

		2011 (₹)	2010 (₹)
1	<b>Share Capital</b>		
	Equity Shares of ₹10 each	<u>60,000</u>	<u>50,000</u>
2	<b>Reserve &amp; surplus</b>		
	Profit and Loss Account	<u>5,000</u>	<u>4,000</u>
3	<b>Other current liabilities</b>		
	Dividend Payable	—	<u>1,000</u>
4	<b>Property, plant and equipment (at WDV)</b>		
	Building	10,000	10,000
	Fixtures	17,000	11,000
	Vehicles	<u>12,500</u>	<u>8,000</u>
	Total	<u>39,500</u>	<u>29,000</u>
5	<b>Cash and cash equivalents</b>		
	Cash and Bank	4,000	8,500

The profit and loss statement for the year ended 31<sup>st</sup> March, 2011 disclosed:

Particulars	₹
Profit Before Tax	4,500
Tax Expense: Current tax	<u>(1,500)</u>
Profit for the year	3,000
Declared Dividend	<u>(2,000)</u>
Retained Profit	1,000

### Further information is available:

	Fixtures (₹)	Vehicles (₹)
Depreciation for the year	1,000	2,500
Disposals:		
Proceeds on disposal of vehicles	—	1,700
Written down value	—	(1,000)
Profit on disposal		700

Prepare a Cash Flow Statement for the year ended 31<sup>st</sup> March, 2011.

**Solution**

**Sun Ltd.**  
**Cash Flow Statement**  
**for the year ended 31<sup>st</sup> March, 2011**

	₹	₹
<b>Cash flows from operating activities</b>		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 – 1,000)	(700)	
Operating profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations	3,800	
Income taxes paid (W.N.1)	(1,000)	
Net cash generated from operating activities		2,800
<b>Cash flows from investing activities</b>		
Sale of vehicles	1,700	
Purchase of current investments	(1,000)	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
Net cash used in investing activities		(14,300)
<b>Cash flows from financing activities</b>		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(3,000)	
Net cash generated from financing activities		<u>7,000</u>
<b>Net decrease in cash and cash equivalents</b>		(4,500)
<b>Cash and cash equivalents at beginning of period</b> (See Note)		8,500
<b>Cash and cash equivalents at end of period</b> (See Note)		4,000
<b>Note to the Cash Flow Statement</b>		
<b>Cash and Cash Equivalents</b>		
	31.3.2011	31.3.2010
Bank and Cash	4,000	8,500
Cash and cash equivalents	4,000	8,500

**Working Notes:**

		₹	
<b>1. Income taxes paid</b>			
Income tax expense for the year			1,500
Add: Income tax liability at the beginning of the year			1,000
			2,500
Less: Income tax liability at the end of the year			(1,500)
			1,000
<b>2. Dividend paid</b>			
Declared dividend for the year			2,000
Add: Amount payable at the beginning of the year			1,000
			3,000
Less: Amount payable at the end of the year			-
			3,000
<b>3. Property, plant and equipment acquisitions</b>			
		<b>Fixtures</b>	<b>Vehicles</b>
		₹	₹
W.D.V. at 31.3.2011		17,000	12,500
Add back:			
Depreciation for the year		1,000	2,500
Disposals		—	1,000
		18,000	16,000
Less: W.D.V. at 31.12.2010		(11,000)	(8,000)
Acquisitions during 2010-2011		7,000	8,000

**Note:** Current investments may not be readily convertible to a known amount of cash and may not be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

### Question 10

From the following Balance sheet of Grow More Ltd., prepare Cash Flow Statement for the year ended 31<sup>st</sup> March, 2011 :

Particulars		Notes	31 <sup>st</sup> March, 2011	31 <sup>st</sup> March, 2010
	<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>			
A	Share Capital		10,00,000	8,00,000
B	Reserves and Surplus	1	3,00,000	2,10,000
<b>2</b>	<b>Non-current liabilities</b>			
	Long Term Borrowings	2	2,00,000	-
<b>3</b>	<b>Current liabilities</b>			
A	Trade Payables		7,00,000	8,20,000
B	Other Current Liabilities	3	-	1,00,000
C	Short-Term Provision (provision for tax)		1,00,000	70,000
	<b>Total</b>		<b>23,00,000</b>	<b>20,00,000</b>
	<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>			
A	Property, Plant and Equipment	4	13,00,000	9,00,000
B	Non-Current Investments		1,00,000	-
<b>2</b>	<b>Current assets</b>			
A	Inventories		4,00,000	2,00,000
B	Trade receivables		5,00,000	7,00,000
C	Cash and Cash Equivalents		-	2,00,000
	<b>Total</b>		<b>23,00,000</b>	<b>20,00,000</b>

### Notes to accounts

No.	Particulars	31 <sup>st</sup> March, 2011	31 <sup>st</sup> March, 2010
<b>1</b>	<b>Reserves and Surplus</b>		
	Revenue Reserve	2,00,000	1,50,000
	Profit and Loss Account	<u>1,00,000</u>	<u>60,000</u>
	<b>Total</b>	<b><u>3,00,000</u></b>	<b><u>2,10,000</u></b>
<b>2</b>	<b>Long term borrowings</b>		
	Debentures (issued at end of year)	2,00,000	-

<b>3.</b>	<b>Other current liabilities</b>		
	Dividend payable	-	1,00,000
<b>4</b>	<b>Property, Plant and Equipment</b>		
	Plant and machinery	7,00,000	5,00,000
	Land and building	<u>6,00,000</u>	<u>4,00,000</u>
	<b>Net carrying value</b>	<b><u>13,00,000</u></b>	<b><u>9,00,000</u></b>

- (i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.
- (ii) At the year end, one old machine costing ₹50,000 (WDV ₹20,000) was sold for ₹35,000. Purchase was also made at the year end.
- (iii) ₹50,000 was paid towards Income tax during the year.
- (iv) Construction of the building got completed on 31.03.2011 and hence no depreciation may be charged on the same.

Prepare Cash flow Statement.

### Solution

**Cash Flow Statement of Grow More Ltd.  
for the year ended 31<sup>st</sup> March, 2011  
Cash Flow from Operating Activities**

		₹
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	
Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	2,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in Trade payables	(1,20,000)	
Cash generated from operations	1,60,000	
Income tax paid	(50,000)	
Net Cash generated from operating activities		1,10,000

### Cash Flow from Investing Activities

Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)

### Cash Flow from Financing activities

Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	<u>(1,00,000)</u>	
Net cash generated from financing activities		<u>3,00,000</u>
Net decrease in cash and cash equivalents		(2,00,000)
Cash and Cash equivalents at the beginning of the year		<u>2,00,000</u>
Cash and Cash equivalents at the end of the year		<u>Nil</u>

### Working Notes:

#### 1. Provision for taxation account

	₹		₹
To Cash (Paid)	50,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By Profit and Loss A/c (Balancing figure)	80,000
	<u>1,50,000</u>		<u>1,50,000</u>

#### 2. Plant and Machinery account

	₹		₹
To Balance b/d	5,00,000	By Depreciation	1,25,000
To Profit and Loss A/c (profit on sale of machine)	15,000		
To Cash (Balancing figure)	3,45,000	By Cash (sale of machine)	35,000
		By Balance c/d	7,00,000
	<u>8,60,000</u>		<u>8,60,000</u>

### Question 11

The following figures have been extracted from the books of X Limited for the year ended on 31.3.2019. You are required to prepare a cash flow statement as per AS 3 using indirect method.

- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 20 lakhs:
  - (a) Depreciation on Property, Plant & Equipment ₹ 5 lakhs.
  - (b) Discount on issue of Debentures written off ₹ 30,000.
  - (c) Interest on Debentures paid ₹ 3,50,000.
  - (d) Book value of investments ₹ 3 lakhs (Sale of Investments for ₹ 3,20,000).
  - (e) Interest received on investments ₹ 60,000.
  - (f) Compensation received ₹ 90,000 by the company in a suit filed.
- (ii) Income tax paid during the year ₹ 10,50,000.
- (iii) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.
- (iv) Dividend paid for the year 2017-2018 ₹ 5 lakhs and interim dividend paid ₹ 3 lakhs for the year 2018-2019.
- (v) Land was purchased on 2.4.2018 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.
- (vi) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	<b>As on 31.3.2018</b>	<b>As on 31.3.2019</b>
	₹	₹
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53,100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

**Solution :**

**X Ltd.**  
**Cash Flow Statement**  
**for the year ended 31<sup>st</sup> March, 2019**

Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)
Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	<u>(8,00,000)</u>	
Net cash used in financing activities		(22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		1,96,300
Cash and cash equivalents as on 31.3.2019		35,300

**Note:** Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

### Question 12

From the following Balance Sheets and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 2011:

Particulars		Notes	31 <sup>st</sup> March 2011 (₹)	31 <sup>st</sup> March 2010 (₹)
	<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>			
A	Share Capital	1	6,00,000	7,00,000
B	Reserves and Surplus	2	4,20,000	3,00,000
<b>2</b>	<b>Non-current liabilities</b>			
	Long-Term Borrowings	3	2,00,000	-
<b>3</b>	<b>Current liabilities</b>			
A	Trade Payables		1,15,000	1,10,000
B	Other Current Liabilities	4	30,000	80,000
C	Short-Term Provision (provision for tax)		95,000	60,000
	<b>Total</b>		<b>14,60,000</b>	<b>12,50,000</b>
	<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>			
A	Property, plant and Equipment	5	9,15,000	7,00,000
B	Non-Current Investments		50,000	80,000
<b>2</b>	<b>Current assets</b>			
A	Inventories		95,000	90,000
B	Trade receivables		2,50,000	2,25,000
C	Cash and Cash equivalents		50,000	90,000
D	Other Current assets		1,00,000	65,000
	<b>Total</b>		<b>14,60,000</b>	<b>12,50,000</b>

**Notes to accounts:**

No.		31 <sup>st</sup> March, 2011	31 <sup>st</sup> March, 2010
<b>1.</b>	<b>Share capital</b>		
	Equity share capital	6,00,000	5,00,000
	10% Redeemable Preference share capital	--	2,00,000
	<b>Total</b>	<b>6,00,000</b>	<b>7,00,000</b>
<b>2</b>	<b>Reserves and Surplus</b>		
	Capital redemption reserve	1,00,000	-
	Capital reserve	70,000	-
	General reserve	1,50,000	2,50,000
	Profit and Loss account	1,00,000	50,000
	<b>Total</b>	<b>4,20,000</b>	<b>3,00,000</b>
<b>3</b>	<b>Long term borrowings</b>		
	9% Debentures	2,00,000	-
<b>4.</b>	<b>Other current liabilities</b>		
	Dividend payable	-	60,000
	Liabilities for expenses	30,000	20,000
	<b>Total</b>	<b>30,000</b>	<b>80,000</b>
<b>5</b>	<b>Property, plant and equipment</b>		
	Plant and machinery	7,65,000	5,00,000
	Land and building	1,50,000	2,00,000
	<b>Net carrying value</b>	<b>9,15,000</b>	<b>7,00,000</b>

**Additional Information:**

- (i) A piece of land has been sold out for ₹1,50,000 (Cost – ₹1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on revaluation of land.
- (ii) On 1<sup>st</sup> April, 2010 a plant was sold for ₹90,000 (Original Cost – ₹70,000 and W.D.V. – ₹50,000) and Debentures worth ₹1 lakh were issued at par as part consideration for plant of ₹4.5 lakhs acquired.
- (iii) Part of the investments (Cost– ₹50,000) was sold for ₹70,000.
- (iv) Pre-acquisition dividend received ₹5,000 was adjusted against cost of investment.
- (v) Interim dividend was declared and paid @ 15% during the current year.
- (vi) Income-tax liability for the current year was estimated at ₹1,35,000.
- (vii) Depreciation @ 15% has been charged on Plant and Machinery but no depreciation has been charged on Building.

## Solution

### Cash Flow Statement of Ryan Limited For the year ended 31<sup>st</sup> March, 2011

	₹	₹
<b>Cash flow from operating activities</b>		
Net Profit before taxation (W.N.1)	2,75,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of land	(30,000)	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.4)	(20,000)	
Interest on debentures (2,00,000 X 9%)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Other current assets (W.N.9)	(35,000)	
Increase in Trade payables	5,000	
Increase in liabilities for expenses	10,000	
Cash generated from operations	2,88,000	
Income taxes paid (W.N.8)	(1,00,000)	
Net cash generated from operating activities		1,88,000
<b>Cash flow from investing activities</b>		
Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	
Pre-acquisition dividend received (W.N.4)	5,000	
Net cash used in investing activities		(60,000)
<b>Cash flow from financing activities</b>		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(1,50,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(1,68,000)

Net decrease in cash and cash equivalents	(40,000)
Cash and cash equivalents at the beginning of the year	90,000
Cash and Cash equivalents at the end of the year	50,000

### Working Notes:

#### 1.

	₹
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.2010	(50,000)
	50,000
Provision for taxation	1,35,000
Dividend	90,000
	2,75,000

#### 2. Land and Building Account

	₹		₹
To Balance b/d	2,00,000	By Cash (Sale)	1,50,000
To Profit and Loss A/c (Profit on sale)	30,000	By Balance c/d	1,50,000
To Capital reserve (Revaluation profit)	70,000		
	3,00,000		3,00,000

#### 3. Plant and Machinery Account

	₹		₹
To Balance b/d	5,00,000	By Cash (Sale)	90,000
To Profit and loss A/c	40,000	By Depreciation	1,35,000
To Debentures	1,00,000	By Balance c/d	7,65,000
To Bank	3,50,000		
	9,90,000		9,90,000

#### 4. Investments Account

	₹		₹
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend (Pre-acquisition)	5,000
To Bank (Balancing figure)	25,000	By Balance c/d	50,000
	1,25,000		1,25,000

### 5. Capital Reserve Account

	₹		₹
To Balance c/d	70,000	By Profit on revaluation of land	70,000
	70,000		70,000

### 6. General Reserve Account

	₹		₹
To Capital redemption reserve	1,00,000	By Balance b/d	2,50,000
To Balance c/d	1,50,000		
	2,50,000		2,50,000

### 7. Dividend Payable Account

	₹		₹
To Bank (Bal. figure)	1,50,000	By Balance b/d	60,000
To Balance c/d	-	By Profit and Loss A/c	90,000
	1,50,000		1,50,000

### 8. Provision for Taxation Account

	₹		₹
To Bank (Balancing figure)	1,00,000	By Balance b/d	60,000
To Balance c/d	95,000	By Profit and loss account	1,35,000
	1,95,000		1,95,000

### 9. Other Current Assets Account

	₹		₹
To Balance b/d	65,000	By Balance c/d	1,00,000
To Bank (Balancing figure)	35,000		
	1,00,000		1,00,000

### Question 13

ABC Ltd. gives you the Balance sheets as at 31<sup>st</sup> March 2010 and 31<sup>st</sup> March 2011. You are required to prepare Cash Flow Statement by using indirect method as per AS 3 for the year ended 31<sup>st</sup> March 2011:

Particulars		Notes	31 <sup>st</sup> March 2010 (₹)	31 <sup>st</sup> March 2011 (₹)
<b>1</b>	<b>Equity and Liabilities Shareholders' Funds</b>			
A	Share capital		50,00,000	50,00,000
B	Reserves and Surplus		26,50,000	36,90,000
<b>2</b>	<b>Non-current liabilities</b>			
	Long term borrowings	1	-	9,00,000
<b>3</b>	<b>Current liabilities</b>			
A	Short-term borrowings (Bank loan)		1,50,000	3,00,000
B	Trade payables		8,80,000	8,20,000
C	Other current liabilities	2	4,80,000	2,70,000
	<b>Total</b>		<b>91,60,000</b>	<b>1,09,80,000</b>
	<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>			
A	Property, Plant and Equipment	3	21,20,000	32,80,000
<b>2</b>	<b>Current assets</b>			
A	Current Investments		11,80,000	15,00,000
B	Inventory		20,10,000	19,20,000
C	Trade receivables	4	22,40,000	26,40,000
D	Cash and Cash equivalents		15,20,000	15,20,000
E	Other Current assets (Prepaid expenses)		90,000	1,20,000
	<b>Total</b>		<b>91,60,000</b>	<b>1,09,80,000</b>

#### Notes to accounts

No.	Particulars	2010	2011
<b>1</b>	<b>Long term borrowings</b>		
	9% Debentures (issued at the end of year)	-	9,00,000
	<b>Total</b>	-	<b>9,00,000</b>
<b>2.</b>	<b>Other current liabilities</b>		
	Dividend payable	1,50,000	-
	Liabilities for expenses	3,30,000	2,70,000
	<b>Total</b>	<b>4,80,000</b>	<b>2,70,000</b>

<b>3</b>	<b>Property, Plant and Equipment</b>		
	Plant and machinery	27,30,000	40,70,000
	Less: Depreciation	(6,10,000)	(7,90,000)
	<b>Net carrying value</b>	<b>21,20,000</b>	<b>32,80,000</b>
<b>4</b>	<b>Trade receivables</b>		
	Gross amount	23,90,000	28,30,000
	Less: Provision for doubtful debts	(1,50,000)	(1,90,000)
	<b>Total</b>	<b>22,40,000</b>	<b>26,40,000</b>

### Additional Information:

- Net profit for the year ended 31<sup>st</sup> March, 2011, after charging depreciation ₹1,80,000 is ₹10,40,000.
- Trade receivables of ₹2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

### Solution

#### Cash Flow Statement of ABC Ltd. for the year ended 31.3.2011

Cash flows from Operating Activities	₹	₹
<b>Net Profit</b>	10,40,000	
Add: Adjustment for Depreciation (₹7,90,000 – ₹6,10,000)	1,80,000	
Add: Adjustment for Provision for Doubtful Debts (₹4,20,000 – ₹1,50,000)	2,70,000	
Operating Profit Before Working Capital Changes	14,90,000	
Add: Decrease in Inventories (₹20,10,000 – ₹19,20,000)	90,000	
	15,80,000	
Less: Increase in Current Assets		
Trade Receivables (₹30,60,000 – ₹23,90,000)	6,70,000	
Prepaid Expenses (₹1,20,000 – ₹90,000)	30,000	
Decrease in Current Liabilities:		
Trade Payables (₹8,80,000 – ₹8,20,000)	60,000	
Expenses Outstanding (₹3,30,000 – ₹2,70,000)	<u>60,000</u>	(8,20,000)
Net Cash generated from Operating Activities		7,60,000
<b>Cash Flows from Investing Activities</b>		
Investment in Current Investments	(3,20,000)	
Purchase of Plant & Machinery (₹40,70,000 – ₹27,30,000)	(13,40,000)	

Net Cash Used in Investing Activities		(16,60,000)
<b>Cash Flows from Financing Activities</b>		
Bank Loan Raised (₹ 3,00,000 – ₹ 1,50,000)	1,50,000	
Issue of Debentures	9,00,000	
Payment of Dividend	<u>(1,50,000)</u>	
<b>Net Cash Used in Financing Activities</b>		9,00,000
Net Increase in Cash During the Year		-
Add: Cash and Cash Equivalents as on 1.4.2010		15,20,000
Cash and Cash Equivalents as on 31.3.2011		15,20,000

**Note:**

1. Bad debts amounting ₹ 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.2011. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.2011.
2. Current investments (i.e. Marketable securities) may not be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

**Question 14**

Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2019.

Particulars	Amount (Rs.)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of Rs. 8,200 was deducted on the above interest)	73,800
Book value of plant & machinery sold (loss incurred Rs. 9,600)	90,000

**Solution :**

Cash Flow Statement from Investing Activities of Subham Creative Limited for year ended 31-03-2019

<b>Cash generated from investing activities</b>	<b>Rs.</b>	<b>Rs.</b>
Interest on loan received	70,000	
Pre-acquisition dividend received on investment made	52,600	
Unsecured loans given to subsidiaries	(5,00,000)	
Interest received on investments (gross value)	82,000	
TDS deducted on interest	(8,200)	
Sale of Plant & Machinery Rs. (90,000 – 9,600)	80,400	
		(2,23,200)
Cash used in investing activities (before extra-ordinary item)		55,000
Extraordinary claim received for loss of machinery		
Net cash used in investing activities (after extra-ordinary item)		(1,68,200)

**Note:**

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.