

CHAPTER 1

CASH FLOW STATEMENT

C2: DIRECT METHOD

Problem.2.1

Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 20X1:

Cash Flow (Abstract)

| Inflows | ₹ | Outflows | ₹ |
|--|------------------|--|------------------|
| Opening balance: | | Payment for Account Payables | 90,000 |
| Cash | 10,000 | Salaries and wages | 25,000 |
| Bank | 70,000 | Payment of overheads | 15,000 |
| Share capital-shares issued | 5,00,000 | Property, plant and equipment acquired | 4,00,000 |
| Collection on account of Trade Receivables | 3,50,000 | Debentures redeemed | 50,000 |
| Sale of fixed assets | 70,000 | Bank loan repaid | 2,50,000 |
| | | Taxation | 55,000 |
| | | Dividends | 1,00,000 |
| | | Closing balance: | |
| | | Cash | 5,000 |
| | | Bank | 10,000 |
| | 10,00,000 | | 10,00,000 |

Prepare Cash Flow Statement for the year ended 31st March, 20X1 in accordance with Accounting Standard 3. **[S.M.4]**

Problem.2.2

From the following information, calculate cash flow from operating activities:

Summary of Cash Account for the year ended March 31, 20X1

| Particulars | ₹ | Particulars | ₹ |
|------------------------|-----------------|------------------------------|-----------------|
| To Balance b/d | 1,00,000 | By Cash Purchases | 1,20,000 |
| To Cash sales | 1,40,000 | By Trade payables | 1,57,000 |
| To Trade receivables | 1,75,000 | By Office & Selling Expenses | 75,000 |
| To Trade Commission | 50,000 | By Income Tax | 30,000 |
| To Sale of Investment | 30,000 | By Investment | 25,000 |
| To Loan from Bank | 1,00,000 | By Repay of Loan | 75,000 |
| To Interest & Dividend | 1,000 | By Interest on loan | 10,000 |
| | | By Balance c/d | 1,04,000 |
| | 5,96,000 | | 5,96,000 |

[S.M.3]

Problem.2.3

From the following summarised Cash account of X Ltd., prepare cash flow statement for the year ended 31st March, 20XI in accordance with AS-3 (revised) using direct method. The company does not have any cash, equivalents.

Summarised Cash Account
For the year ended 31st March, 20XI

| Particulars | (₹ 000) | Particulars | (₹ 000) |
|-------------------------|--------------|-----------------------------|--------------|
| Balance (1.4.20X0) | 50 | Payment to suppliers | 2,000 |
| Issue of Share capital | 300 | Purchase of Fixed assets | 200 |
| Received from customers | 2,800 | Overhead expenses | 200 |
| Sale of Fixed assets | 100 | Wages and salaries | 100 |
| | | Taxation | 250 |
| | | Dividend | 50 |
| | | Repayment of Bank Loan | 300 |
| | | Closing Balance (31.3.20XI) | 150 |
| | 3,250 | | 3,250 |

[S.M.9]

Problem.2.4

Prepare cash flow statement of Gama Limited for the year ended 31st March, 2021 in accordance with AS-3 (Revised) from the following cash account summary:

Cash summary Account

| Inflows | ₹ ('000) | Outflows | ₹ ('000) |
|---------------------------------------|---------------|--------------------------------------|---------------|
| Opening Balance | 945 | Payment to suppliers | 54,918 |
| Receipts from Customers | 74,682 | Purchase of Investments | 351 |
| Sale of Investments | 459 | Property, plant & equipment acquired | 6,210 |
| (Cost ₹ 4,05,000) | | Wages and salaries | 1,863 |
| Issue of Shares | 8,100 | Payment of Overheads | 3,105 |
| Sale of Property, Plant and equipment | 3,456 | Taxation | 6,561 |
| | | Dividends | 2,160 |
| | | Repayment of Bank Overdraft | 6,750 |
| | | Interest paid on Bank Overdraft | 1,350 |
| | | Closing Balance | 4,374 |
| | 87,642 | | 87,642 |

[July 2021, 10 Marks]

Solution

Gama Limited - Cash Flow Statement
For the Year Ended 31st March 2021

| Particulars | Amount (₹ '000) | Amount (₹ '000) |
|---|--------------------|--------------------|
| Cash flow from Operating Activities: | | |
| Cash receipts from customers | 74,682 | |
| Cash payments to suppliers | (54,918) | |
| Cash payments for wages & salaries | (1,863) | |
| Cash payments of overheads | (3,105) | |
| Cash Generated from Operations | 14,796 | |
| Payment of Taxation | <u>(6,561)</u> | |
| Net Cash from Operating Activities | | 8,235 |
| Cash Flow from Investing Activities: | | |
| Proceeds from sale of investments | 459 | |
| Proceeds from sale of Property, Plant and Equipment | 3,456 | |
| Purchase of Investments | (351) | |
| Purchase of Property, Plant and Equipment | <u>(6,210)</u> | |
| Net Cash Used in Investing Activities | | (2,646) |
| Cash Flow from Financing Activities: | | |
| Proceeds from issue of shares | 8,100 | |
| Payment of Dividend | (2,160) | |
| Repayment of Bank Overdraft | (6,750) | |
| Interest paid on Bank Overdraft | <u>(1,350)</u> | |
| Net Cash Used in Financing Activities | | (2,160) |
| Net Increase in Cash & Cash Equivalent | | 3,429 |
| Cash and Cash Equivalent in the Beginning of the year | | 945 |
| Cash and Cash Equivalent in the end of the year | | 4374 |

Problem.2.5

The following summary cash account has been extracted from the company's accounting records.

Summary Cash Account

| Particulars | (₹) | (₹ '000) |
|--|-------|------------|
| Balance at 1.3.20X1 | | 35 |
| Receipts from customers | | 2,783 |
| Issue of shares | | 300 |
| Sale of fixed assets | | <u>128</u> |
| | | 3,246 |
| Payments to suppliers | 2,047 | |
| Payments for property, plant and equipment | 230 | |

| | | |
|-------------------------------|------------|---------------|
| Payments for overheads | 115 | |
| Wages and salaries | 69 | |
| Taxation | 243 | |
| Dividends | 80 | |
| Repayments of bank loan | <u>250</u> | <u>(3034)</u> |
| Balance at 31.03. 2002 | | 212 |

Prepare Cash Flow Statement of this company Hills Ltd. for the year ended 31st March, 20X2 in accordance with AS-3 (Revised). The company does not have any cash equivalents. **[S.M.4]**

Problem.2.6

Prepare Cash Flow Statement of MNT Ltd for the year ended 31st March 2015 with the help of the following information:

- Company sold goods for cash only.
- Gross Profit Ratio was 30% for the year, Gross Profit amounts to ₹ 3,82,500.
- Opening Inventory was lesser than Closing Inventory by ₹ 35,000.
- Wages paid during the year ₹ 4,92,500.
- Office and Selling Expenses paid during the years ₹ 75,000.
- Dividend paid during the year ₹ 30,000.
- Bank Loan repaid during the year ₹ 2,15,000 (including Interest, ₹15,000)
- Trade Payables on 31st March 2014 exceed the balance on 31st March 2015 by ₹ 25,000.
- Amount paid to Trade payables during the year ₹ 4,60,000.
- Tax paid during the year amounts to ₹ 65,000 (Provision for Taxation as on 31.03.2015 ₹45,000).
- Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.
- Depreciation on Fixed Assets amounts to ₹ 85,000.
- Plant and Machinery purchased on 15th November 2014 for ₹ 2,50,000.
- Cash and Cash Equivalents on 31st March 2014 ₹ 2,00,000.
- Cash and Cash Equivalents on 31st March 2015 ₹ 6,07,500. **[S.M.5]**

Problem.2.7

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

| Particulars | Notes | 20X1 (₹ in lakhs) | 20X0 (₹ in lakhs) |
|-------------------------------|-------|----------------------|----------------------|
| Equity and Liabilities | | | |
| 1. Shareholder's funds | | | |
| (a) Trade payables | | 250 | 230 |
| (b) Short term provisions | 1 | 200 | 180 |
| (c) Other current liabilities | 2 | 70 | 50 |

| Assets | | | |
|--------------------------|---|-----|-----|
| 1. Current Assets | | | |
| (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 31st March, 20X1**

| | Particulars | Notes | (₹ in lakhs) |
|-----|--|-------|---------------------|
| I | Revenue from operations | | 4,150 |
| II | Other income | 4 | <u>100</u> |
| III | Total Revenue (1 + II) | | <u>4,250</u> |
| | Expenses: | | |
| | Purchases of Stock-in-Trade | | 2,400 |
| | Change in inventories of finished goods | | (20) |
| | Employee benefits expenses | | 800 |
| | Depreciation expense | | 100 |
| | Finance cost | 5 | 60 |
| | Other expenses | | <u>200</u> |
| IV | Total expenses | | <u>3,540</u> |
| V | Profit before tax (III – IV) | | 710 |
| VI | Tax expense: | | |
| | Current tax | | <u>200</u> |
| VII | Profit for the year from continuing operations | | 510 |

Appropriators

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

Notes to accounts

| | | 20X1 (₹ in lakhs) | 20X0 (₹ in lakhs) |
|----------|-----------------------------------|----------------------|----------------------|
| 1 | Share term Provisions: | | |
| | Provision for Tax | <u>200</u> | <u>180</u> |
| 2 | Other current liabilities: | | |
| | Outstanding wages | 50 | 40 |
| | Outstanding expenses | <u>20</u> | <u>10</u> |
| | Total | <u>70</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.

[S.M.10]

Problem.2.8

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.20X1 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 ₹ 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 ₹ 11.5 crores (including Dividend distribution tax) was also paid.
- (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 1.4.20X0 | ₹ in crores 31.3.20X1 |
|-----------|-------------------------|--------------------------|
| Debtors | 45 | 50 |
| Creditors | 21 | 23 |
| Bank | 6 | 18.2 |

[S.M.11]

C3: INDIRECT METHOD

Problem.3.1

Following are the extract of Balance Sheet of Ajay Ltd.:

| Liabilities | Notes | 31.3.20X1 | 31.3.20X2 |
|-------------------------------|-------|-----------|-----------|
| Equity and Liabilities | | | |
| Shareholder's funds | | | |
| (a) Share capital | 1 | 5,00,000 | 5,00,000 |
| (b) Reserve & surplus | 2 | 50,000 | 90,000 |

| | | | |
|--------------------------------|---|----------|----------|
| Non-current liabilities | | | |
| (a) Long-term borrowings | 3 | 5,00,000 | 7,50,000 |
| Current liabilities | | | |
| (a) Other current liabilities | 4 | - | 5,000 |
| Assets | | | |
| Non-Current assets | | | |
| (a) Intangible assets | 5 | 2,05,000 | 1,80,000 |

Notes to accounts

(₹)

| | | 31.3.20X1 | 31.3.20X2 |
|---|-----------------------------------|-----------|-----------|
| 1 | Share Capital | | |
| | 50,000 Equity Shares of ₹ 10 each | 5,00,000 | 5,00,000 |
| 2 | Reserve & surplus | | |
| | Profit & Loss A/c | 50,000 | 90,000 |
| 3 | Long-term borrowings | | |
| | 10% Debentures | 5,00,000 | 7,50,000 |
| 4 | Other current liabilities | | |
| | Unpaid interest | - | 5,000 |
| 5 | Intangible assets | | |
| | Goodwill | 2,05,000 | 1,80,000 |

[S.M.2]**Problem.3.2**

Ryan Ltd. provides you the following information at year-end, March 31, 20X1:

| | ₹ | ₹ |
|--|----------------|-------------------|
| Sales | | 6,98,000 |
| Cost of Goods Sold | | <u>(5,20,000)</u> |
| | | 1,78,000 |
| Operating Expenses | | |
| (including Depreciation Expense of ₹ 37,000) | | <u>(1,47,000)</u> |
| | | 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 | <u>(3,000)</u> | <u>(8,000)</u> |
| | | 23,000 |
| Income tax | | <u>(7,000)</u> |
| | | 16,000 |

Information available

| | 31.3.20X1 | 31.3.20X2 |
|---------------------------------------|-------------------|-----------------|
| Assets | | |
| Plant Assets | 7,15,000 | 5,05,000 |
| Less: Accumulated Depreciation | <u>(1,03,000)</u> | <u>(68,000)</u> |
| | <u>6,12,000</u> | <u>4,37,000</u> |
| Investments (Long term) | 1,15,000 | 1,27,000 |
| Inventory | 1,44,000 | 1,10,000 |
| Accounts receivable | 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 |
| Accounts payable | 50,000 | 43,000 |
| Accrued liabilities | 12,000 | 9,000 |
| Income taxes payable | 3,000 | 5,000 |

Analysis of selected accounts and transactions during 20X0-X1:

- Purchased investments for ₹ 78,000.
- Sold investments for ₹ 1,02,000. These investments cost ₹ 90,000.
- Purchased plant assets for ₹ 1,20,000.
- Sold plant assets that cost ₹ 10,000 with accumulated depreciation of ₹ 2,000 for ₹ 5,000.
- Issued ₹ 1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 20X1.
- Repaid ₹ 50,000 of bonds at face value at maturity.
- Issued ₹ 15,000 shares of 10 each.
- Paid cash dividends ₹ 8,000.

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

[S.M.6]

Problem.3.3

The balance sheets of Sun Ltd. for the years ended 31st March 20X1 and 20X0 were summarised as:

| Particulars | Notes | 20X1 | 20X0 |
|-------------------------------|-------|--------|--------|
| Equity and Liabilities | | | |
| 1. Shareholder's funds | | | |
| (a) Share Capital | 1 | 60,000 | 50,000 |
| (b) Reserves & surplus | 2 | 5,000 | 4,000 |

| | | | |
|--|---|---------------|---------------|
| 2. Current Liabilities: | | | |
| (a) Trade payables | | 4,000 | 2,500 |
| (b) Other current liabilities | 3 | - | 1,000 |
| (c) Short term provision (provision for tax) | | 1,500 | 1,000 |
| Total | | 70,500 | 58,500 |
| Assets | | | |
| 1. Non-Current Assets | | | |
| (a) Property, Plant & Equipment | 4 | 39,500 | 29,000 |
| 2. Current Assets | | | |
| (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 | 8,000 |
| Total | | 70,500 | 58,500 |

Notes to accounts

| | | 20X1 ₹ | 20X0 ₹ |
|----------|---|--|---|
| 1 | Share Capital Equity shares of ₹ 10 each | <u>60,000</u> | <u>50,000</u> |
| 2 | Reserve & surplus Profit and Loss Account | <u>5,000</u> | <u>4,000</u> |
| 3 | Other current liabilities Dividend payable | - | <u>1,000</u> |
| 4 | Property, plant and equipment (at WDV) Building Fixtures Vehicles Total | 10,000 17,000 <u>12,500</u> <u>39,500</u> | 10,000 11,000 <u>8,000</u> <u>29,000</u> |
| 5 | Cash and cash equivalents Cash and Bank | <u>4,000</u> | <u>8,500</u> |

The profit and loss account for the year ended 31st March, 20X1 disclosed:

| | |
|--------------------|----------------|
| | ₹ |
| Profit before tax | 4,500 |
| Taxation | <u>(1,500)</u> |
| Profit after tax | 3,000 |
| Declared dividends | <u>(2,000)</u> |
| Retained profit | <u>1,000</u> |

Further information is available:

| | Fixtures (₹) | Vehicles (₹) |
|-----------------------|--------------|----------------|
| Depreciation for year | 1,000 | 2,500 |
| Disposals: | | |
| Proceeds on disposal | - | 1,700 |
| Written on value | - | <u>(1,000)</u> |
| Profit on disposal | | 700 |

Prepare a Cash Flow Statement for the year ended 31st March, 20X1.

[S.M.7]

Problem.3.4

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 20X1:

| | (₹ in lakhs) |
|---|--------------|
| Net Profit | 25,000 |
| Dividend (including dividend tax) 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 Profit & Loss Account | 20,000 |
| Profit on sale of Investments | 100 |
| Carrying amount of Investment sold | 27,765 |
| Interest income 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 20X1 in accordance with AS 3. (Make necessary assumptions).

[S.M. 8]

Problem.3.5

From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.20X1:

Ledger balances of Mr. Zen as of 20X0 and 20X1

| Liabilities | As on 1.4.20X0 | As on 1.4.20X0 |
|---------------------|----------------|----------------|
| Zen's capital A/c | 10,00,000 | 12,24,000 |
| Trade payables | 3,20,000 | 3,52,000 |
| Mrs. Zen's loan | 2,00,000 | - |
| Loan from Bank | 3,20,000 | 4,00,000 |
| Land | 6,00,000 | 8,80,000 |
| Plant and Machinery | 6,40,000 | 4,40,000 |
| Inventories | 2,80,000 | 2,00,000 |
| Trade receivables | 2,40,000 | 4,00,000 |
| Cash | 80,000 | 56,000 |

Additional information: A machine costing ₹ 80,000 (accumulated depreciation there on ₹ 24,000) was sold for ₹ 40,000. The provision for depreciation on 1.4.20X0 was ₹ 2,00,000 and 31.3.20X1 was ₹ 3,20,000. The net profit for the year ended on 31.3.20X1 was ₹ 3,60,000. **[S.M.12]**

Problem.3.6

From the following details relating to the Accounts of Grow More Ltd. -prepare Cash Flow Statement for the year ended 31st March, 20X1:

| Liabilities | 31.3.20X1 | 31.3.20X0 |
|-------------------------|------------------|------------------|
| Share Capital | 10,00,000 | 8,00,000 |
| Reserve | 2,00,000 | 1,50,000 |
| Profit and Loss Account | 1,00,000 | 60,000 |
| Debentures | 2,00,000 | - |
| Provision for taxation | 1,00,000 | 70,000 |
| Declared dividend | 2,00,000 | 1,00,000 |
| Sundry Creditors | 7,00,000 | 8,20,000 |
| | 25,00,000 | 20,00,000 |
| Assets | 31.3.2011 | 31.3.2010 |
| Plant and Machinery | 7,00,000 | 5,00,000 |
| Land and Building | 6,00,000 | 4,00,000 |
| Investments | 1,00,000 | - |
| Sundry Debtors | 5,00,000 | 7,00,000 |
| Stock | 4,00,000 | 2,00,000 |
| Cash on hand/Bank | 2,00,000 | 2,00,000 |
| | 25,00,000 | 20,00,000 |

- (i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.
- (ii) During the year one old machine costing 50,000 (WDV 20,000) was sold for 35,000.
- (iii) ₹ 50,000 was paid towards Income tax during the year.
- (iv) Building under construction was not subject to any depreciation.

Prepare Cash flow Statement.

[T.10]

Problem.3.7

From the following Balance sheet and information, prepare Cash flow Statement of Ryan Ltd. For the year ended 31st March, 20X1:

Balance Sheet

| Liabilities | 31 st March, 20X1 (₹) | 31 st March, 20X0 (₹) |
|-----------------------------------|-------------------------------------|-------------------------------------|
| Equity Share Capital | 6,00,000 | 5,00,000 |
| 10% Redeemable Preference Capital | - | 2,00,000 |
| Capital Redemption Reserve | 1,00,000 | - |
| Capital Reserve | 1,00,000 | - |
| General Reserve | 1,00,000 | 2,50,000 |
| Profit & Loss Account | 70,000 | 50,000 |
| 9% Debentures | 2,00,000 | - |
| Sundry Creditors | 95,000 | 80,000 |
| Bills Payable | 20,000 | 30,000 |
| Liabilities for Expenses | 30,000 | 20,000 |
| Provision for Taxation | 95,000 | 60,000 |
| Declared Dividend | 90,000 | 60,000 |
| | 15,00,000 | 12,50,000 |
| Assets | 31 st March, 20X1 (₹) | 31 st March, 20X0 (₹) |
| Land and Building | 1,50,000 | 2,00,000 |
| Plant and Machinery | 7,65,000 | 5,00,000 |
| Investments | 50,000 | 80,000 |
| Inventory | 95,000 | 90,000 |
| Bills Receivable | 65,000 | 70,000 |
| Sundry Debtors | 1,75,000 | 1,30,000 |
| Cash and Bank | 65,000 | 90,000 |
| Preliminary Expenses | 10,000 | 25,000 |
| Voluntary Separation Payments | 1,25,000 | 65,000 |
| | 15,00,000 | 12,50,000 |

Additional Information:

- (a) 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 sale and profit on Revaluation.
- (b) On 1st April, 20X0 a plant was sold for ₹ 90,000 (Original Cost – ₹ 70,000 and W.D.V. – ₹ 50,000) and Debentures worth ₹ 1 lakh was issued at par as part consideration for Plant of ₹ 4.5 lakh acquired.
- (c) Part of the investments (Cost – ₹ 50,000) was sold for ₹ 70,000.
- (d) Pre-acquisition dividend received ₹ 5,000 was adjusted against cost of Investment.
- (e) Directors have proposed 15% dividend for the current year.
- (f) Voluntary separation cost of ₹ 50,000 was adjusted against General Reserve.
- (g) Income-tax liability for the current year was estimated at ₹ 1,35,000.
- (h) Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

[T.11]***Problem.3.8***

The Balance Sheet of New Light Ltd. for the years ended 31st March, 20X0 and 20X1 are as follows:

| Liabilities | 31st March 20X0 | 31st March 20X1 |
|----------------------|-----------------------------------|-----------------------------------|
| | (₹) | (₹) |
| Equity share capital | 12,00,000 | 16,00,000 |
| 10% Preference | | |
| Share Capital | 4,00,000 | 2,80,000 |
| Capital Reserve | - | 40,000 |
| General Reserve | 6,80,000 | 8,00,000 |
| Profit and Loss A/c | 2,40,000 | 3,00,000 |
| 9% Debentures | 4,00,000 | 2,80,000 |
| Current liabilities | 4,80,000 | 5,20,000 |
| Declared dividend | 1,20,000 | 1,4,000 |
| Provision for Tax | 3,60,000 | 3,40,000 |
| Unpaid dividend | - | 16,000 |
| | 38,80,000 | 43,20,000 |
| Assets | 31st March 20X0 | 31st March 20X1 |
| Fixed Assets | 32,00,000 | 38,00,000 |
| Less: Depreciation | <u>9,20,000</u> | <u>11,60,000</u> |
| | 22,80,000 | 26,40,000 |
| Investment | 4,00,000 | 3,20,000 |
| Cash | 10,000 | 10,000 |
| Other current assets | 11,10,000 | 13,10,000 |
| Preliminary expenses | 80,000 | 40,000 |
| | 38,80,000 | 43,20,000 |

Additional information:

- (i) The company sold one fixed asset for ₹ 1,00,000, the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹ 80,000.
- (ii) The company also decided to write off another fixed asset costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.
- (iii) Depreciation on fixed assets provided ₹ 3,60,000.
- (iv) Company sold some investment at a profit of ₹ 40,000.
- (v) Debentures and preference share capital redeemed at 5% premium. Debenture were redeemed at the year end.
- (vi) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The stock according to books on 31.3.20X0 was ₹ 2,16,000. The inventory on 31.3.20X1 was correctly valued at ₹ 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

[T.12]

Problem.3.9

ABC Ltd. gives you the Balance sheets as at 31st March 20X0 and 31st March 20X1. You are required to prepare Cash Flow Statement by using indirect methods as per AS 3 for the year ended 31.03.20X1:

Balance Sheet as on

| Liabilities | 31 st March 20X0 (₹) | 31 st March 20X1 (₹) |
|-----------------------------------|------------------------------------|------------------------------------|
| Capital | 50,00,000 | 50,00,000 |
| <u>Retained Earnings</u> | | |
| P/L A/c | 26,50,000 | 36,90,000 |
| Debentures | - | 9,00,000 |
| <u>Current Liabilities</u> | | |
| Creditors | 8,80,000 | 8,20,000 |
| Bank Loan | 1,50,000 | 3,00,000 |
| Liability for expenses | 3,30,000 | 2,70,000 |
| Dividend payable | 1,50,000 | 3,00,000 |
| | 91,60,000 | 1,12,80,000 |
| <u>Assets</u> | | |
| Plant & Machinery | 27,30,000 | 40,70,000 |
| Less: Depreciation | <u>6,10,000</u> | <u>7,90,000</u> |
| | <u>21,20,000</u> | <u>32,80,000</u> |
| <u>Current Assets</u> | | |
| Debtors | 23,90,000 | 28,30,000 |
| Less: Provision | <u>1,50,000</u> | <u>1,90,000</u> |
| | 22,40,000 | 26,40,000 |
| Cash | 15,20,000 | 18,20,000 |

| | | |
|-----------------------|------------------|--------------------|
| Marketable securities | 11,80,000 | 15,00,000 |
| Inventories | 90,000 | 1,20,000 |
| Prepaid Expenses | 20,10,000 | 19,20,000 |
| | 91,60,000 | 1,12,80,000 |

Additional Information

- (i) Net profit for the year ended 31st March, 20X1, after charging depreciation ₹ 1,80,000 is ₹22,40,000.
- (ii) 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. [T.13]

Problem.3.10

The following information was provided by M/s PQR Ltd. for the year ended 31st March, 2019

- (1) Gross Profit Ratio was 25% for the year, it 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 31st March, 2018 were ₹ 50,000 and on 31st 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 31st 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 15th November, 2018 for ₹ 3, 50,000.
- (16) On 31st March, 2019 ₹ 2,00,000, 7% 'Debentures issued at face value in an exchange for a plant.
- (17) Cash and Cash equivalents on 31st March, 2018 ₹ 2,25,000.
 - (A) Prepare cash flow statement for the year ended 31st March, 2019, using direct method.
 - (B) Calculate cash flow from operating activities, using indirect method. [May 2019, 10 Marks]

Solution. (i)**PQR Ltd.****Cash Flow Statement for the year ended 31st 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) | <u>(50,000)</u> | <u>(12,15,000)</u> |

| | | |
|---|-------------------|-------------------|
| Cash generated from operations before taxes | | 2,85,000 |
| Income tax paid | | <u>(55,000)</u> |
| 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 | <u>(3,50,000)</u> | 4,90,000 |
| Net cash used in investing activities (B) | | |
| Cash flows from financing activities | | |
| Bank loan repayment (including interest) | | |
| Dividend paid (including dividend distribution tax) | (2,05,000) | |
| Net cash used in financing activities (C) | <u>(40,000)</u> | <u>(2,45,000)</u> |
| Net increase in cash (A+B+C) | | 4,75,000 |
| Cash and cash equivalents at beginning of the period | | <u>2,25,000</u> |
| Cash and cash equivalents at end of the period | | 7,00,000 |

(ii) '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 | | <u>(20,000)</u> |
| Net Profit after Adjustment for Non-Cash Items | | 3,25,000 |
| Less: Decrease in trade payables | 15,000 | |
| Increase in inventory | <u>25,000</u> | <u>(40,000)</u> |
| Cash generated from operations before taxes | | 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 | | <u>20,000</u> |
| Net profit before tax | | 2,80,000 |

Problem.3.11

The following figures have been extracted from the books of Manan Limited for the year ended on 31.3.2020. You are required to prepare the 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 ₹ 30 lakhs:
- Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.
 - Discount on issue of Debentures written off ₹ 45,000.
 - Interest on Debentures paid ₹ 5,25,000.
 - Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).
 - Interest received on investments ₹ 90,000.
- (ii) Compensation received ₹ 1,35,000 by the company in a suit filed.
- (iii) Income tax paid during the year ₹ 15,75,000.
- (iv) 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2019 at a premium of 5%.
- (v) Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30.3.2020 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery).
- (vi) Dividend for FY 2018-19 on preference shares were paid at the time of redemption.
- (vii) Dividend on Equity shares paid on 31.01.2020 for the year 2018-2019 ₹ 7.50 lakhs (including dividend distribution tax) and interim dividend paid ₹ 2.50 lakhs for the year 2019-2020.
- (viii) Land was purchased on 02.4.2019 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.
- (ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

| | As on 01.04.2019 ₹ | As on 31.03.2020 ₹ |
|----------------------|-----------------------|-----------------------|
| Inventory | 18,00,000 | 19,77,000 |
| Trade receivables | 3,87,000 | 3,79,650 |
| Cash in hand | 3,94,450 | 16,950 |
| Trade payables | 3,16,500 | 3,16,950 |
| Outstanding expenses | 1,12,500 | 1,22,700 |

[Nov. 2020, 10 Marks]

Solution.**Manan Ltd.****Cash Flow Statement for the year ended 31st March, 2020**

| | ₹ | ₹ |
|---|----------|-----------|
| Cash flow from Operating Activities | | |
| Net profit before income tax and extraordinary items: | | 30,00,000 |
| Adjustments for: | | |
| Depreciation on Property, plant and equipment | 7,50,000 | |
| Discount on issue of debentures | 45,000 | |
| Interest on debentures paid | 5,25,000 | |

| | | |
|---|--------------------|--------------------|
| Interest on investments received | (90,000) | |
| Profit on sale of investments | <u>(30,000)</u> | 12,00,000 |
| Operating profit before working capital changes | | 42,00,000 |
| Adjustments for: | | |
| Increase in inventory | (1,77,000) | |
| Decrease in trade receivable | 7,350 | |
| Increase in trade payables | 450 | |
| Increase in outstanding expenses | <u>10,200</u> | (1,59,000) |
| Cash generated from operations | | 40,41,000 |
| Income tax paid | | <u>(15,75,000)</u> |
| Cash flow from ordinary items | | 24,66,000 |
| Cash flow from extraordinary items: | | |
| Compensation received in a suit filed | | 1,35,000 |
| Net cash flow from operating activities | | 26,01,000 |
| Cash flow from Investing Activities; | | |
| Sale proceeds of investments | 4,80,000 | |
| Interest received on investments | 90,000 | |
| Purchase of land (3,00,000 less 2,64,000) | <u>(36,000)</u> | |
| Net cash flow from investing activities | | 5,34,000 |
| Cash flow from Financing Activities | | |
| Proceeds of issue of equity shares at 20% premium | 6,00,000 | |
| Redemption of preference shares at 5% premium | (23,62,500) | |
| Preference dividend paid | (2,25,000) | |
| Interest on debentures paid | (5,25,000) | |
| Dividend paid (7,50,000 + 2,50,000) | <u>(10,00,000)</u> | |
| Net cash used in financing activities | | (35,12,500) |
| Net decrease in cash and cash equivalents during the year | | (3,77,500) |
| Add: Cash and cash equivalents as on 31.3.2019 | | 3,94,450 |
| Cash and cash equivalents as on 31.3.2020 | | 16,950 |

Problem.3.12

Following information was extracted from the books of S Ltd. for the year ended 31st March, 2020:

- (1) Net profit before taking into account income tax and after taking into account the following items was ₹ 30 lakhs;
- (i) Depreciation on Property, Plant & Equipment ₹ 7,00,000.
 - (ii) Discount on issue of debentures written off ₹ 45,000.
 - (iii) Interest on debentures paid ₹ 4,35,000.
 - (iv) Investment of Book value ₹ 3,50,000 sold for ₹ 3,75,000.
 - (v) Interest received on Investments ₹ 70,000.

- (2) Income tax paid during the year ₹ 12,80,000.
- (3) Company issued 60,000 Equity Shares of ₹ 10 each at a premium of 20% on 10th April, 2019.
- (4) 20,000, 9% Preference Shares of ₹ 100 each were redeemed on 31st March, 2020 at a premium of 5%.
- (5) Dividend paid during the year amounted to ₹ 11 Lakhs (including dividend distribution tax).
- (6) A new Plant costing ₹ 7 Lakhs was purchased in part exchange of an old plant on 1st January, 2020. The book value of the old plant was ₹ 8 Lakhs but the vendor took over the old plant at a value of ₹ 6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March, 2020.
- (7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2020 was ₹ 14,76,000. The inventory on 31.03.2019 was correctly valued at ₹ 13,50,000.
- (8) Current Assets and Current Liabilities in the beginning and at the end of year 2019-2020 were as:

| | As on 1 st April, 2019 (₹) | As on 31 st March, 2020 (₹) |
|----------------------|---|--|
| Inventory | 13,50,000 | 14,76,000 |
| Trade Receivables | 3,27,000 | 3,13,200 |
| Cash & Bank Balances | 2,40,700 | 3,70,500 |
| Trade Payables | 2,84,700 | 2,87,300 |
| Outstanding Expenses | 97,000 | 1,01,400 |

You are required to prepare a **Cash Flow Statement** for the year ended 31st March, 2020 as per **AS 3 (revised)** using the indirect method.

[Jan. 2021, 12 Marks]

Solution.

S Ltd.

Cash Flow Statement for the year ended 31st March, 2020

| | ₹ | ₹ |
|--|----------|-----------|
| Cash flows from operating activities | | |
| Net profit before taxation* | | 30,00,000 |
| Adjustments for: | | |
| Depreciation on PPE | 7,00,000 | |
| Discount on debentures | 45,000 | |
| Profit on sale of investments | (25,000) | |
| Interest income on investments | (70,000) | |
| Interest on debentures | 4,35,000 | |
| Stock adjustment {14,76,000 less 16,40,000 (14,76,000/90 × 100)} | 1,64,000 | |

| | | |
|---|-------------|-------------|
| Operating profit before working capital changes | | 12,49,000 |
| Changes in working capital (Excluding cash and bank balance): | | 42,49,000 |
| Less: Increase in inventory {16,40,000 (14,76,000/90 × 100) less 13,50,000} | (2,90,000) | |
| Add: Decrease in Trade receivables | 13,800 | |
| Increase in trade payables | 2,600 | |
| Increase in outstanding expenses | 4,400 | (2,69,200) |
| Cash generated from operations | | 39,79,800 |
| Less: Income taxes paid | | (12,80,000) |
| Net cash generated from operating activities | | 26,99,800 |
| Cash flows from investing activities | | |
| Sale of investments | 3,75,000 | |
| Interest received | 70,000 | |
| Payments for purchase of fixed assets (7,00,000 – 6,00,000) | (1,00,000) | |
| Net cash used in investing activities | | 3,45,000 |
| Cash flows from financing activities | | |
| Redemption of Preference shares | (21,00,000) | |
| Issue of shares | 7,20,000 | |
| Interest paid | (4,35,000) | |
| Dividend paid | (11,00,000) | |
| Net cash used in financing activities | | (29,15,000) |
| Net increase in cash | | 1,29,800 |
| Cash at beginning of the period | | 2,40,700 |
| Cash at end of the period | | 3,70,500 |

*Net profit given in the question is after considering only the items listed as information point (1) of the question; hence amount of loss on plant not added back.

Problem.3.13

The following information is provided by Alpha Limited, for the year ended 31st March, 2022.

- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 40 lakhs.
- (ii) Depreciation on Fixed Assets ₹ 10 lakhs.
- (iii) Discount on issue of Debentures written off ₹ 60,000.
- (iv) Interest on Debentures paid ₹ 7,00,000.
- (v) Book value of investments ₹ 6 lakhs (Sale of Investments for ₹ 6,40,000).
- (vi) Interest received on investments ₹ 1,20,000.
- (vii) Compensation received ₹ 1,80,000 by the company in a suit filed.
- (viii) Income tax paid ₹ 21,00,000.
- (ix) Current assets and current liabilities in the beginning and at the end of the year were as detailed below:

| | As on 31.3.2021 (₹) | As on 31.3.2022 (₹) |
|----------------------|------------------------|------------------------|
| Stock | 24,00,000 | 26,36,000 |
| Sundry Debtors | 4,16,000 | 4,26,200 |
| Cash in hand | 3,92,600 | 70,600 |
| Bills Receivable | 1,00,000 | 80,000 |
| Bills Payable | 90,000 | 80,000 |
| Sundry Creditors | 3,32,000 | 3,42,600 |
| Outstanding Expenses | 1,50,000 | 1,63,600 |

You are required to prepare Cash Flow Statement from Operative Activities in accordance with AS-3 (revised) using the indirect method for the year ended 31st March, 2022. [May 2022, 5 Marks]

Solution.

Alpha Ltd.

Cash Flow Statement (from Operating Activities)

for the year ended 31st March, 2022

| | ₹ | ₹ |
|---|------------|------------------|
| Cash flow from Operating Activities | | |
| Net profit before income tax and extraordinary items: | | 40,00,000 |
| Adjustments for: | | |
| Depreciation on Property, plant and equipment | 10,00,000 | |
| Discount on issue of debentures | 60,000 | |
| Interest on debentures paid | 7,00,000 | |
| Interest on investments received | (1,20,000) | |
| Profit on sale of investments | (40,000) | 16,00,000 |
| Operating profit before working capital changes | | 56,00,000 |
| Adjustments for: | | |
| Increase in inventory | (2,36,000) | |
| Increase in Sundry Debtors | (10,200) | |
| Decrease in Bills receivables | 20,000 | |
| Increase in Sundry Creditors | 10,600 | |
| Increase in Bills payables | (10,000) | |
| Increase in outstanding expenses | 13,600 | (2,12,000) |
| Cash generated from operations | | 53,88,000 |
| Income tax paid | | (21,00,000) |
| Cash flow from ordinary items | | 32,88,000 |
| Cash flow from extraordinary items: | | |
| Compensation received in a suit filed | | 1,80,000 |
| Net cash flow from operating activities | | 34,68,000 |

Problem.3.14

The summarized Balance Sheet of Flora Limited for the year ended 31st March, 2022 and 31st March, 2023 are as below:

| Assets | 31/03/2023 (₹) | 31/03/2022 (₹) |
|-----------------------------|------------------|-----------------|
| Goodwill | 15,000 | 28,000 |
| Land | 5,75,000 | 6,00,000 |
| Furniture and Fixtures | 48,000 | 44,000 |
| Vehicles | 22,000 | 28,000 |
| Office Equipment | 21,000 | - |
| Long-term Investments | 60,000 | 1,10,000 |
| Stock-in-hand | 96,000 | 88,000 |
| Bills Receivables | 18,150 | 14,500 |
| Trade Receivables | 46,000 | 52,000 |
| Cash and Bank Balances | 1,29,850 | 34,500 |
| Total | 10,31,000 | 9,99,000 |
| Liabilities | 31/03/2023 (₹) | 31/03/2022 (₹) |
| Equity Share Capital | 6,80,000 | 5,00,000 |
| General Reserve | 90,000 | 60,000 |
| Profit and Loss Account | 93,000 | 52,000 |
| Capital Reserve | 75,000 | - |
| 8% Debentures of ₹ 100 each | - | 3,00,000 |
| Loan from Mr. Andrew | - | 15,000 |
| Bills Payables | 11,000 | 13,000 |
| Trade Payables | 49,000 | 45,000 |
| Creditors for Equipment | 10,500 | - |
| Outstanding Expenses | 4,500 | 3,000 |
| Provision for Taxation | 18,000 | 11,000 |
| Total | 10,31,000 | 9,99,000 |

Additional Information:

- (i) On 1st April 2022, one of the vehicles was sold for ₹ 3,000. No new purchases were made during the year.
- (ii) A part of the total land was sold for ₹ 1,25,000 (Cost ₹ 1,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year.
- (iii) Depreciation provided during the year -
 - Furniture and Fixtures ₹ 5,000
 - Vehicles ₹ 2,200

- (iv) Interim dividend of ₹ 5,000 was paid during the year.
 (v) Provision for taxation for the year 2022-2023 was ₹ 16,000.
 (vi) 8% Debentures were redeemed at par after half year interest payment on 30th September, 2022.
 (vii) Part of the long-term investments were sold at a profit of ₹ 8,000.
 (viii) Interest income received during the year on long-term investment was ₹ 6500.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2023 using indirect method. (All workings should form part of the answer)

[May 2023, 10 Marks]

Solution. **Cash Flow Statement of Flora Limited from Operating Activities**
for the year ended 31st March, 2023

| | ₹ | ₹ |
|---|---------------|----------------|
| Net profit before taxation (W.N.1) | | 92,000 |
| Adjustment: Depreciation on Furniture & Fixtures | 5,000 | |
| Depreciation on Vehicles | 2,200 | |
| Profit on sale of land (₹ 125000 - ₹ 100000) | (25,000) | |
| Loss on sale (Vehicle) | 800 | |
| Profit on sale of long-term investments | (8,000) | |
| Interest received | (6,500) | |
| Interest on debentures | 12,000 | |
| Goodwill written off | <u>13,000</u> | <u>(6,500)</u> |
| Operating profit before working capital changes | | 85,500 |
| Increase in Stock in Hand | (8,000) | |
| Increase in Bills Receivables | (3,650) | |
| Decrease in Trade Receivables | 6,000 | |
| Decrease in Bills payable | (2,000) | |
| Increase in Trade Payables | 4,000 | |
| Increase in outstanding expenses | <u>1,500</u> | <u>(2,150)</u> |
| Cash generated from Operations | | 83,350 |
| Less: Income taxes paid | | <u>9,000</u> |
| Cash flow from Operating activities | | <u>74,350</u> |

Alternative presentation:

Cash Flow Statement of Flora Limited from Operating Activities
for the year ended 31st March, 2023

| | | ₹ |
|---|-------|--------|
| Net profit before taxation (W.N. 1) | | 92,000 |
| Adjustment: Depreciation on Furniture & fixtures | 5,000 | |
| Depreciation on Vehicles | 2,200 | |

| | | |
|---|---------------|----------------------|
| Profit on sale of land | (25,000) | |
| Loss on sale (Vehicle) | 800 | |
| Profit on sale of long- term investments | (8,000) | |
| Interest received | (6,500) | |
| Interest on debentures | 12,000 | |
| Goodwill written off | <u>13,000</u> | <u>(6,500)</u> |
| Operating profit before working capital changes | | 85,500 |
| Increase in inventory | (8,000) | |
| Decrease in Trade receivables* | 2,350 | |
| Increase in Trade payables** | 2,000 | |
| Increase in outstanding expenses | <u>1,500</u> | <u>(2,150)</u> |
| Cash generated from Operations | | 83,350 |
| Less: Income taxes paid | | <u>9,000</u> |
| Cash flow from Operating activities | | <u>74,350</u> |

*[(18,150 +46,000) - (14,500 + 52,000)]

** [(11,000 + 49,000) - (13,000+45,000)]

Working Notes:

1. Net Profit before Taxation

| | |
|---|---------------|
| Increases in Profit and Loss A/c (93,000-52,000) | 41,000 |
| Increases in General Reserve (90,000-60,000) | 30,000 |
| Interim dividend Paid | 5,000 |
| Transfer – provision for Taxation | 16,000 |
| Increase in retained earnings (Net Profit before Taxation) | 92,000 |

2. Provision for Taxation Account

| | ₹ | | ₹ |
|----------------------------|---------------|----------------------------|---------------|
| To Bank (Balancing figure) | 9,000 | By Balance b/d | 11,000 |
| To Balance c/d | 18,000 | By Profit and loss account | 16,000 |
| | 27,000 | | 27,000 |

3. Vehicles Account

| Particulars | (₹) |
|------------------------------|----------|
| Opening Balance | 28,000 |
| Less: Depreciation | (2,200) |
| Less: Closing Balance | (22,000) |
| Book value of vehicle sold | 3,800 |
| Less: Sale Value | (3,000) |
| Loss on sale of Vehicle | 800 |

C4: MULTIPLE CHOICE QUESTIONS

1. What is the primary purpose of a cash flow statement?
 - (a) To track the company's investments
 - (b) To report the company's cash inflows and outflows over a period
 - (c) To calculate the company's tax liability
 - (d) To monitor employee performance
2. Which type of activity is the purchase of machinery classified under in a cash flow statement?
 - (a) Operating activity
 - (b) Investing activity
 - (c) Financing activity
 - (d) Non-operating activity
3. What does 'cash and cash equivalents' include in the context of cash flow statements?
 - (a) Long-term investments
 - (b) Accounts receivables
 - (c) Cash in hand and short-term deposits
 - (d) Inventory
4. Cash flows from operating activities primarily include transactions related to:
 - (a) Sale of company shares
 - (b) Principal revenue-generating activities
 - (c) Issuance of new bonds
 - (d) Purchase of fixed assets
5. In a cash flow statement, repayment of a long-term loan is categorized as:
 - (a) An operating activity
 - (b) An investing activity
 - (c) A financing activity
 - (d) An extraordinary item
6. Which method for calculating cash flows from operating activities starts with net profit or loss?
 - (a) Direct method
 - (b) Indirect method
 - (c) Analytical method
 - (d) Comprehensive method
7. Interest paid on loans is typically classified under which type of activity in a cash flow statement?
 - (a) Operating activity
 - (b) Investing activity
 - (c) Financing activity
 - (d) Non-operating activity
8. The acquisition of a subsidiary company, excluding the amount of cash acquired, is shown under which section in the cash flow statement?
 - (a) Operating activities
 - (b) Investing activities
 - (c) Financing activities
 - (d) Equity activities
9. In cash flow statements, dividends paid are usually classified as:
 - (a) Operating activities
 - (b) Investing activities
 - (c) Financing activities
 - (d) Non-current activities
10. What does the cash flow statement not typically include?
 - (a) Cash flows from operating activities
 - (b) Cash flows from financing activities
 - (c) Future cash flow projections
 - (d) Cash flows from investing activities

11. Why is the cash flow statement important for investors?
 - (a) It helps in understanding the company's debt levels
 - (b) It provides insight into the company's ability to generate cash
 - (c) It indicates the company's stock price
 - (d) It shows the company's product range
12. How does the cash flow from operating activities differ from cash flow from investing activities?
 - (a) Operating activities include sales revenue, while investing activities include purchase of assets
 - (b) Operating activities focus on external investments, while investing activities focus on internal operations
 - (c) There is no difference between the two
 - (d) Operating activities are not reported in the cash flow statement
13. What does a positive cash flow from operating activities indicate about a company's financial health?
 - (a) The company is profitable
 - (b) The company is investing heavily
 - (c) The company is incurring high expenses
 - (d) The company is liquidating its assets
14. Why might a company prefer using the indirect method over the direct method for reporting cash flows from operating activities?
 - (a) It is less complex and easier to prepare
 - (b) It provides more detailed information
 - (c) It is the only method allowed by international accounting standards
 - (d) It focuses solely on cash transactions
15. In what way does the cash flow statement complement the balance sheet and income statement?
 - (a) By providing a detailed analysis of the company's investments
 - (b) By showing the actual cash inflows and outflows, as opposed to accounting profits or losses
 - (c) By listing the company's product and service offerings
 - (d) By indicating the company's market capitalization
16. How does an increase in accounts receivable affect the cash flow from operating activities?
 - (a) Increases cash flow
 - (b) Decreases cash flow
 - (c) Has no effect on cash flow
 - (d) Fluctuates the cash flow unpredictably

25. If a company's depreciation expense is ₹ 30,000 and its net increase in fixed assets is ₹ 70,000, what is the cash spent on purchasing fixed assets?
- (a) ₹ 40,000 (b) ₹ 100,000
(c) ₹ 30,000 (d) ₹ 70,000
26. Analyze the impact on the cash flow from operating activities if there is an increase in accounts payable.
- (a) Increases cash flow (b) Decreases cash flow
(c) No change in cash flow (d) Varies based on sales volume
27. Assess the financial health of a company with consistently positive cash flows from operating activities but negative overall cash flows.
- (a) Strong operational performance but heavy investing and/or financing outflows
(b) Poor operational performance
(c) High profitability
(d) Ineffective use of assets
28. Analyze a scenario where a company has decreasing cash from operating activities but increasing overall cash balance.
- (a) The company may be selling off assets or raising funds through financing
(b) The company is likely reducing its operational scale
(c) This indicates increasing profitability
(d) The company is likely cutting down on its investment activities
29. Create a scenario where a company's cash flow from operations is positive, but the net income is negative.
- (a) High non-cash expenses and low operational revenue
(b) Low sales and high cost of goods sold
(c) High operational revenue and low non-cash expenses
(d) Low depreciation and amortization expenses
30. Devise a cash flow statement scenario for a start-up in its first year with significant capital expenditures and minimal revenue.
- (a) High cash outflow in both operating and investing activities
(b) High cash inflow in operating activities and low outflow in investing activities
(c) Low cash outflow in operating activities and high inflow in investing activities
(d) Balanced cash flows in both operating and investing activities
31. Construct a scenario where a company's cash flow from operating activities is decreasing but its cash balance is increasing.
- (a) The company is obtaining funds through financing activities
(b) The company is liquidating its investments
(c) The company is reducing its operational scale
(d) The company is increasing its investment in fixed assets

32. What is the main objective of disclosing cash flows from operating activities in a cash flow statement?
- (a) To show the company's investment decisions
 - (b) To reflect the cash effects of transactions that enter into the determination of net profit
 - (c) To indicate the company's borrowing and repayment of debt
 - (d) To demonstrate changes in the equity of the company
33. Under which heading in the cash flow statement would dividends received from investments be classified?
- (a) Operating activities
 - (b) Investing activities
 - (c) Financing activities
 - (d) Non-operating activities
34. How are gains from the sale of equipment typically reported in the cash flow statement?
- (a) As a deduction from cash inflows in operating activities
 - (b) As a cash inflow in investing activities
 - (c) As a cash outflow in financing activities
 - (d) As an operating expense
35. What does a negative cash flow from investing activities generally indicate?
- (a) The company is liquidating its assets
 - (b) The company is accumulating cash reserves
 - (c) The company is investing in capital assets for future growth
 - (d) The company is decreasing its investment portfolio
36. Where would the repayment of a bank loan be reported in the cash flow statement?
- (a) Operating activities
 - (b) Investing activities
 - (c) Financing activities
 - (d) Equity activities
37. In a cash flow statement, what does a high amount of cash inflow from financing activities typically suggest?
- (a) High operational income
 - (b) Sale of company assets
 - (c) Acquisition of new loans or issuance of equity
 - (d) Efficient working capital management
38. Which item would not be adjusted for while calculating cash flows from operating activities using the indirect method?
- (a) Depreciation
 - (b) Dividend paid
 - (c) Increase in inventory
 - (d) Amortization of intangible assets

39. What does the term 'cash equivalents' refer to in a cash flow statement?
- (a) Physical currency only
 - (b) Short-term, highly liquid investments that are readily convertible to known amounts of cash
 - (c) Long-term financial investments
 - (d) Accounts receivables
40. Which activity would typically be classified as a cash outflow in financing activities?
- (a) Issuance of new shares
 - (b) Purchase of treasury stocks
 - (c) Sale of a subsidiary company
 - (d) Purchase of short-term investments
41. In the context of a cash flow statement, what does 'free cash flow' represent?
- (a) Cash available after paying for all operating expenses and investments
 - (b) Cash before paying any dividends
 - (c) Cash remaining after financing activities
 - (d) Total cash flow of the company
42. Why is it important to analyze cash flow from operating activities separately from other types of cash flows?
- (a) To evaluate the company's ability to generate profit
 - (b) To assess the company's ability to generate cash from its core business operations
 - (c) To understand the company's investment strategy
 - (d) To measure the company's efficiency in debt management
43. How can an increase in accounts payable affect a company's cash flow from operating activities?
- (a) It indicates more cash is retained within the business
 - (b) it reflects increased cash spending
 - (c) It suggests reduced revenue generation
 - (d) It has no effect on cash flows
44. What does a consistent negative cash flow from operating activities suggest about a company's operational health?
- (a) It is efficiently managing its investments
 - (b) It may be facing challenges in sustaining its core business operations
 - (c) It is likely expanding its operations rapidly
 - (d) It is proficient in managing its financing activities
45. Why is the indirect method for calculating cash flows from operating activities often used by companies?
- (a) It directly ties into the balance sheet and income statement
 - (b) It is easier to calculate than the direct method

- (c) It provides more detailed information on cash transactions
- (d) It is the only method recognized internationally
46. How does the purchase of treasury stock affect the cash flow statement?
- (a) It is shown as a cash inflow in operating activities
- (b) It is listed as a cash outflow in investing activities
- (c) It appears as a cash outflow in financing activities
- (d) It does not affect the cash flow statement
47. What does a substantial increase in cash flow from investing activities typically indicate?
- (a) The company is divesting assets
- (b) The company is heavily investing in long term assets
- (c) The company is experiencing operational inefficiencies
- (d) The company is increasing its cash reserves
48. In what way does depreciation expense impact the cash now from operating activities in the indirect method?
- (a) It is added back to net income
- (b) It is deducted from net income
- (c) It is not considered in the indirect method
- (d) It is used to adjust the change in working capital
49. Why is it important for a company to have a positive cash flow from operating activities?
- (a) It indicates the company is making profitable investments
- (b) It shows the company is efficiently managing its financing
- (c) It suggests the company is capable of sustaining its operations through the cash it generates
- (d) It implies the company is growing rapidly
50. How would an increase in depreciation expense affect the cash flow from operating activities?
- (a) Increase the cash flow
- (b) Decrease the cash flow
- (c) Have no effect on the cash flow
- (d) Change the net income
51. What insight does the comparison of cash flow from operating activities to net income provide?
- (a) The company's investment strategy
- (b) The company's dividend payment policy
- (c) The quality of the company's earnings
- (d) The company's equity structure
52. If a company's cash receipts from customers are ₹ 500,000, and cash paid to suppliers and employees are ₹ 300,000, what is the cash flow from operating activities?
- (a) ₹ 200,000
- (b) ₹ 500,000
- (c) ₹ 800,000
- (d) ₹ 300,000

53. Determine the cash flow from investing activities given:
Purchase of fixed assets - ₹ 50,000; Proceeds from sale of investments - ₹ 30,000; Cash paid for acquisition of a subsidiary - ₹ 20,000.
- (a) ₹ 40,000 (b) ₹ 10,000
(c) ₹ 70,000 (d) ₹ 60,000
54. From the following data, calculate the net cash flow:
Cash inflow from operating activities - ₹ 200,000; Cash outflow from investing activities ₹150,000; Cash inflow from financing activities - ₹ 50,000.
- (a) ₹ 100,000 (b) ₹ 200,000 (c) ₹ 300,000 (d) ₹ 50,000
55. Analyze the change in a company's cash flow from operating activities if its net income increases but accounts receivable also increase significantly.
- (a) Significant increase (b) Moderate increase
(c) No change (d) Possible decrease
56. If a company's cash flow from investing activities turns from negative to positive, what could be the potential reasons?
- (a) Increased investments in fixed assets
(b) Disposal of long-term investments or fixed assets
(c) Decreased revenue from sales
(d) Increased borrowing
57. Assess the implications of a consistent negative cash flow from financing activities on a company's capital structure.
- (a) Increasing equity financing (b) Increasing debt financing
(c) Repayment of debt or equity capital (d) Expansion of operational activities
58. Examine the effect of an increase in inventory levels on the cash flow from operating activities.
- (a) Increase in cash flow
(b) Decrease in cash flow
(c) No impact on cash flow
(d) Variable impact based on sales
59. Analyze the potential impact on cash flow from operating activities if a company's gross margin increases but its inventory turnover ratio decreases.
- (a) Increase in cash flow (b) Decrease in cash flow
(c) No significant impact (d) Fluctuating impact
60. Evaluate the financial health of a company with increasing cash flow from operating activities but decreasing cash flow from investing activities.
- (a) Strong financial health
(b) Poor financial health
(c) Over-investment in operations
(d) Under-investment in long-term assets

61. Assess the impact of substantial non-cash expenses like depreciation on the company's cash flow from operating activities.
- (a) Increases cash flow (b) Decreases cash flow
(c) No impact on cash flow (d) Decreases net income but not cash flow
62. Evaluate the decision to engage in significant capital expenditures in a scenario where a company's cash flow from operations is robust.
- (a) Positive long-term investment (b) Risk of liquidity issues
(c) Potential for overextension (d) Prudent use of excess cash
63. Create a cash flow statement scenario where a company's cash flow from operations is positive, but it still experiences a net decrease in cash due to activities in other sections.
- (a) High investing and financing outflows
(b) Low investing and financing outflows
(c) Neutral investing and financing activities
(d) No investing or financing activities
64. Devise a scenario where a company improves its cash flow from operating activities by efficiently managing its receivables and payables.
- (a) Decreasing receivables and increasing payables
(b) Increasing receivables and decreasing payables
(c) Stable receivables and payables
(d) Increasing both receivables and payables
65. Which statement in the cash flow statement is adjusted for changes in inventory, receivables, and payables?
- (a) Cash flow from financing activities (b) Cash flow from investing activities
(c) Cash flow from operating activities (d) None of the above
66. What item is typically not included in the calculation of cash flows from operating activities under the direct method?
- (a) Cash received from customers (b) Cash paid to suppliers
(c) Depreciation expense (d) Interest paid
67. In a cash flow statement, where would proceeds from issuing bonds typically be reported?
- (a) Operating activities (b) Investing activities
(c) Financing activities (d) Not included in the cash flow statement
68. What does a high positive cash flow from financing activities often indicate?
- (a) The company is repaying debt at a fast pace
(b) The company is efficiently managing its working capital
(c) The company is potentially raising capital through debt or equity
(d) The company is divesting its assets
69. Which of the following would typically be categorized as an investing activity?
- (a) Payment of dividends (b) Issuance of shares
(c) Purchase of treasury stocks (d) Purchase of a piece of machinery

70. Why is the cash flow statement considered a critical tool for financial analysis alongside the income statement and balance sheet?
- (a) It exclusively focuses on the company's profitability
 - (b) It provides insights into the company's cash generation and usage
 - (c) It only reports the company's financial position at a point in time
 - (d) It mainly details the company's investment in assets
71. What can be inferred about a company with high cash inflows from operating activities and low cash outflows for investing activities?
- (a) The company is likely in a growth phase with significant reinvestment
 - (b) The company may be conserving cash and not investing in growth
 - (c) The company is primarily focused on financing activities
 - (d) The company is liquidating its assets
72. What does a decreasing trend in cash flow from operating activities over multiple periods suggest about a company's operational performance?
- (a) Improving performance
 - (b) Declining performance
 - (c) Stable performance
 - (d) Fluctuating performance
73. Analyze the potential implications for a company if its cash flow from investing activities is consistently more positive than its cash flow from operating activities.
- (a) Strong operational efficiency
 - (b) Heavy investment in future growth
 - (c) Potential divestment or asset liquidation
 - (d) High reliance on external financing
74. Assess the impact on a company's future cash flows if there's a significant increase in capital expenditures.
- (a) Immediate increase in cash flows
 - (b) Potential for future cash inflows due to increased capacity
 - (c) Decrease in future profitability
 - (d) No impact on future cash flows
75. Evaluate the decision to sell a major part of the company's assets, as reflected by a large cash inflow in the investing activities.
- (a) Indicates a strategy of asset-light operation
 - (b) Suggests financial distress and asset liquidation
 - (c) Implies a shift towards more profitable operations
 - (d) Reflects a temporary measure to improve cash flow
76. Create a scenario in which a company has a positive cash flow from operations but opts for substantial borrowing in financing activities.
- (a) To fund a large-scale expansion project
 - (b) To cover operational inefficiencies

- (c) As a precautionary measure for unforeseen expenses
- (d) To distribute large dividends to shareholders
77. Devise a cash flow statement for a new startup that shows a negative cash flow from operations, a positive cash flow from financing activities, and minimal investing activities.
- (a) Typical for startups in the initial growth phase
- (b) Indicates poor financial management
- (c) Suggests a focus on short-term operations
- (d) Reflects a conservative approach to business expansion
78. While preparing cash flow statement, conversion of debt to equity [ICAI Module]
- (a) Should be shown as a financing activity.
- (b) Should be shown as an investing activity.
- (c) Should not be shown as it is a non-cash transaction
- (d) Should not be shown as operating activity.
79. Which of the following would be considered a cash-flow item from an "investing" activity? [ICAI Module]
- (a) Cash outflow to the government for payment of taxes.
- (b) Cash outflow to purchase bonds issued by another company.
- (c) Cash outflow to shareholders as dividends
- (d) Cash outflow to make payment to trade payables.
80. All of the following would be included in a company's operating activities except: [ICAI Module]
- (a) Income tax payments
- (b) Collections from customers or Cash payments to suppliers
- (c) Dividend payments
- (d) Office and selling expenses.
81. Hari Uttam, a stock broking firm, received ₹ 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm? [ICAI Module]
- (a) Operating Activities
- (b) Investing Activities
- (c) Financing Activities
- (d) Non-cash transaction
82. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as [ICAI Module]
- (a) Operating activity
- (b) Financing activity
- (c) Investing activity
- (d) Non-cash transaction

