

Chapter-9

Cash flow statement

Lecture 1

* **Meaning:-**

Cash inflow → Company → Cash outflow

* Cash flow statement
↓
Report / Statement
↓
Prepared by management

Content

↓

Inflows (receipts) Outflow (payments) Net changes

Cash & cash equivalents

Cash
balanceBank
balance

* Cash equivalents

Investments (marketable security)

→ Nominal risk security

AND

→ Maturity Period ≤ 3 months

AND

→ Highly liquid

* **Reasons for preparing cash flow statement :-**

Ind AS 1

Presentation of financial statement

A complete set of financial statements comprises of -

- Balance sheet
- Statement of profit and loss
- Statement of changes in equity
- Statement of cash flow

Not mandatory for

i) OPC . small company . dormant company

ii) Entities falling in level II and level III

- Notes . comprising significant accounting policies

It provides important information that compliments statement of P&L and balance sheet

* **Classification of cash flow statement :-**

Cash flow from operating activities



- Principal revenue producing activities and
- Other activities

Not investing or financing activities

Cash flow from investing activities



- Acquisition and disposal of
- Long-term assets and
 - Other investments

Not included in cash equivalents

Cash flow from financing activities



- Activities that results in changes in the size and composition of the
- Owner's capital and
 - Borrowings

* **Cash flow from operating activities:** -

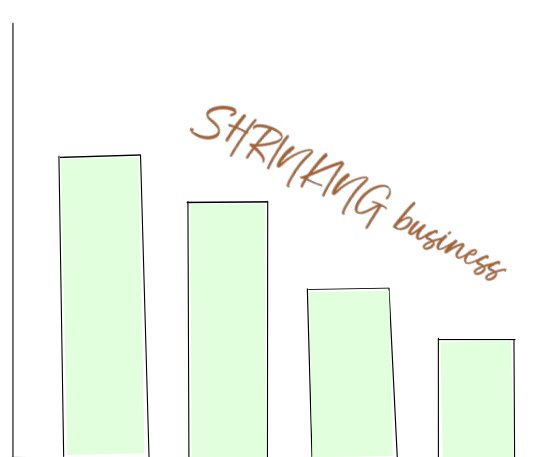
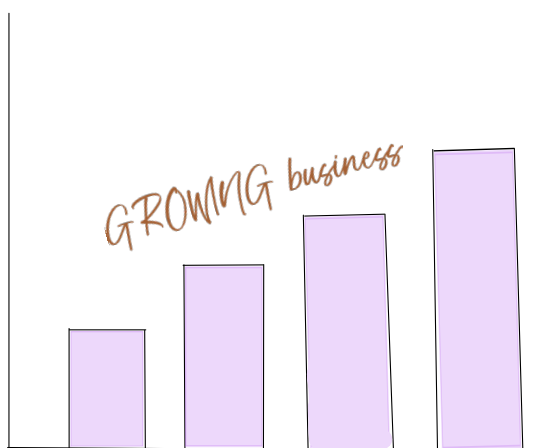
- Principal revenue producing activities
and
- Other activities

Cash inflows

- Sale of goods
- Sale of service
- Collection from customer etc

Cash outflows

- Purchases
- Payment to creditors
- Operating expenses
- Government taxes etc



Lecture 2

* **Cash flow from investing activities:** -

Acquisition and disposal of

- Long term assets
and
- Other investments

Cash inflows

- Sale of long term assets
- Sale of long term investment
- Disposal of subsidiary company
- Sale of interest in JV or Asso co.

Cash outflows

- Purchase of long term assets
- Payment of long term investment
- Investment in subsidiary co.
- Purchase of interest in JV or Asso co.

* **Cash flow from financing activities** -

Activities that results in changes in the size and composition of the

- Owner's capital
- Borrowings

Cash inflows

- Issue of shares
- Security premium received
- Issue of debentures
- Bank loan raised

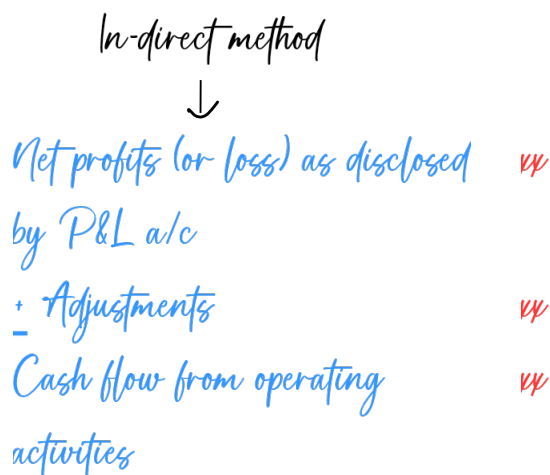
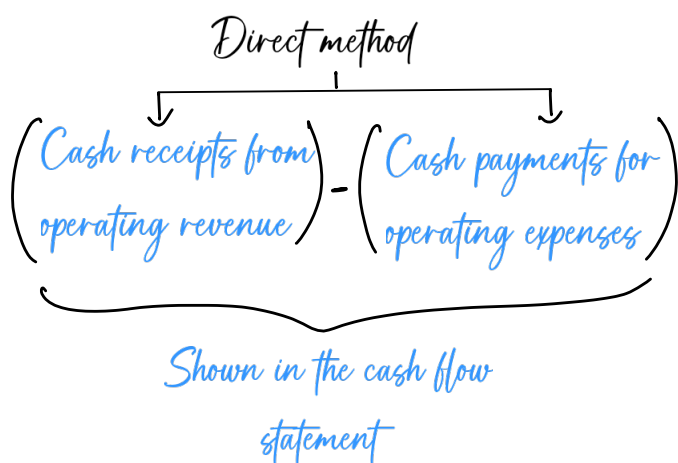
Cash outflows

- Buy back of shares
- Redemption of preference shares
- Payment of dividend / interest
- Repayment of debenture / bank loan

* **Cash flow statement (main heads only)** :-

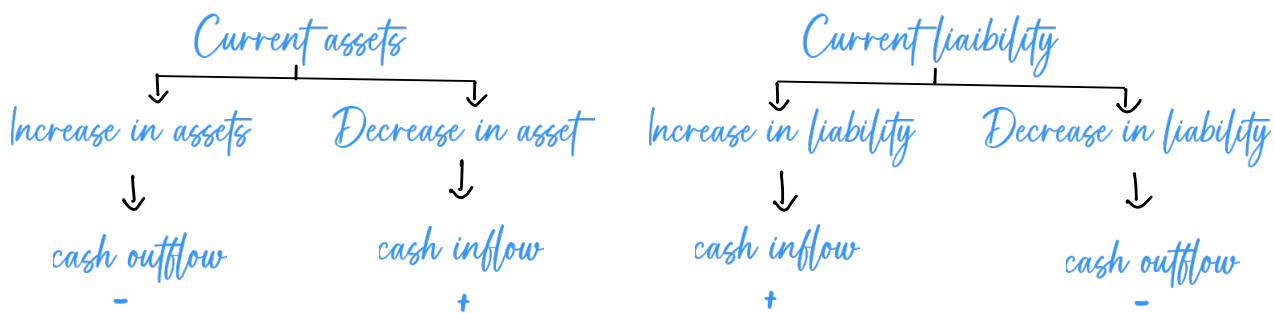
Particular	Amount (₹)
A) Cash flow from operating activities	xx
B) Cash flow from investing activities	xx
C) Cash flow from financing activities	xx
Net changes (decrease) in cash & cash equivalent (A+B+C)	xx
Add : Cash & cash equivalents at the beginning	xx
Cash & cash equivalents at the end	xx

Lecture 3

* Methods of preparing cash flow statement :-* Cash flow statement (direct method) :-

Particular	Amount ₹
A) Cash flows from Operating Activities	
i) Cash Inflow	
Cash sales of goods and services	xx
Cash collected from Debtors	xx
Cash receipts of royalties, fees, commission etc.	<u>xx</u> xx
ii) Cash Outflow	
Cash payments to suppliers (creditors)	xx
Cash payments for operating expenses	<u>xx</u> xx
Cash generated from Operations	xx
Income tax paid during the year	<u>(xx)</u>
Net Cash Flow From operating Activity	xx
B) Cash flows from Investing Activities	xx
C) Cash flows from Financing Activities	xx
Net increase (decrease) in cash and cash equivalents (A+B+C)	xx
Add : Cash and cash equivalents at the beginning	xx
Cash and cash equivalents at the end	xx

* **Effects of changes in working capital :-**



Lecture 4

* **Format :-**

Cash flow statement (for the year ended ---)

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
<i>A) Operating Activity</i>		
<i>Closing balance of profit and loss A/c</i>	<i>₹</i>	
<i>Less : Op. balance of profit and loss A/c</i>	<i>(₹)</i>	<i>₹</i>
<i>Surplus during the year</i>		<i>₹</i>
<i>Add Back : Appropriation</i>		
<i>Dividend paid</i>	<i>₹</i>	
<i>Transfer to reserve</i>	<i>₹</i>	<i>₹</i>
<i>Profit after tax</i>		<i>₹</i>
<i>Add : Provision for Tax during the year</i>		<i>₹</i>
<i>Profit before tax</i>		<i>₹</i>
<i>Add : Non cash / Non operation expenses</i>	<i>₹</i>	
<i>Depreciation / Deferred Exp. W/off</i>	<i>₹</i>	
<i>Amortization of intangible assets</i>	<i>₹</i>	
<i>Loss on sale of fixed assets</i>	<i>₹</i>	
<i>Interest expenses</i>	<i>₹</i>	<i>₹</i>

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
<i>Less : Non Cash/ Non Operating income</i>		
<i>Gain on sale of fixed assets</i>	<i>(xx)</i>	
<i>Dividend / Rent Received</i>	<u><i>(xx)</i></u>	<u><i>(xx)</i></u>
<i>Operating Profit Before change in Working Capital</i>		<i>xx</i>
<i>Adjustment for change in working Capital</i>		
<i>Add : Increase in Current Liability</i>	<i>xx</i>	
<i>Add : Decrease in Current Assets</i>	<i>xx</i>	
<i>Less : Decrease in Current Liability</i>	<i>(xx)</i>	
<i>Less : Increase in Current Assets</i>	<u><i>(xx)</i></u>	<u><i>xx</i></u>
<i>Cash Operating Profit before extraordinary item and tax</i>		<i>xx</i>
<i>Add/Less : Extraordinary Item</i>		
<i>Proceeds from Insurance settlement</i>		<i>xx</i>
<i>Cash Operating Profit before tax Paid</i>		<i>xx</i>
<i>Less : Tax Paid</i>		<i>(xx)</i>
<i>Cash flow from Operating Activity</i>		<u><u><i>xx</i></u></u>
 <i>B) Investing Activity</i>		
<i>Purchase / Sale fixed assets</i>	<i>xx</i>	
<i>Purchase / Sale of investments</i>	<i>xx</i>	
<i>Loans to subsidiaries</i>	<i>xx</i>	
<i>Interest / Dividend received</i>	<u><i>xx</i></u>	<i>xx</i>
<i>Cash flow from investing Activity</i>		<u><u><i>xx</i></u></u>
 <i>C) Financing Activity</i>		
<i>Proceeds from long term borrowings</i>		<i>xx</i>

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
<i>Proceeds from issue of share capital</i>	<i>₹</i>	
<i>Repayment to finance/lease liabilities</i>	<i>₹</i>	
<i>Dividend paid</i>	<i>₹</i>	<i>₹</i>
<i>Cash flow from financing Activity</i>		<i>₹</i>
<i>Net Cash Flow [A+B+C]</i>		<i>₹</i>
<i>Add : Opening Balance of Cash and Cash Eq (Cash + Bank Balance + Marketable Securities)</i>		<i>₹</i>
<i>Closing balance of Cash and Cash Eq (Cash + Bank Balance + Marketable Securities)</i>		<i>₹</i>

Q No. 1: Calculate Cash Flow from operating Activities from the following details:

Particulars	31st March, 2014	31st March, 2013
Surplus, i.e., Balance in statement of profit and Loss	80,000	60,000
Trade Receivables	25,000	31,000
Provision for Depreciation	40,000	30,000
Inventories	80,000	60,000
Outstanding Rent	12,000	21,000
Goodwill	30,000	38,000
Prepaid insurance	1,000	2,000
Trade Payables (creditors)	13,000	19,000

Sol. Cash flow statement for operating activity

Particular	Amount ₹	Amount ₹
A) Operating Activity		
Closing balance of profit and loss A/c	80.000	
Less : Op. balance of profit and loss A/c	<u>(60.000)</u>	20.000
Surplus during the year		20.000
Add Back : Appropriation		-
Profit before tax		20.000
Add : Non cash / Non operation expenses		
Depreciation (40.000 - 30.000)	10.000	
Goodwill W/off (38.000 - 30.000)	<u>8.000</u>	18.000
Less : Non Cash/ Non Operating income		-
Cash Operating Profit Before change in Working Capital		38.000
Adjustment for change in working Capital		
Add : Increase in Cur Liab & Decrease in Cur Ast		
Trade receivables (31.000 - 25.000)	6.000	
Prepaid insurance (2000 - 1000)	<u>1000</u>	7.000
Less : Decrease in Cur Liab & Increase in Cur Ast		
Inventory (80.000 - 60.000)	(20.000)	
Outstanding rent (21.000 - 12000)	(9.000)	
Trade payable (19. 000 - 13.000)	<u>(6.000)</u>	(35.000)
Cash Operating Profit before extraordinary item and tax		10.000
Less : Tax Paid		-
Cash flow from Operating Activity		<u>10.000</u>

* **Common assumption for cash flow statement :-**

(Use Assumption if NOTHING specified in Question)

- 1) Long term liability will be raised at the beginning of the year
- 2) Long term liability will be redeemed at the End of the year
- 3) Fixed Assets has been purchased at the beginning of the year
- 4) Fixed Assets has been sold at the beginning of the year

Q No. 3: From the following information, calculate cash Flow from financing Activities:

Particulars	31st March, 2014 (Rs)	31st March, 2013 (Rs)
Equity share capital	10,00,000	9,00,000
Securities premium Reserve	2,60,000	2,50,000
12% Debentures	1,00,000	1,50,000

Sol. Cash flow statement for financing activity

Particular	Amount ₹	Amount ₹
A) Inflow		
Issue of equity share (10,00,000 - 9,00,000)	1,00,000	
Security premium received (2,60,000 - 2,50,000)	<u>10,000</u>	1,10,000
B) Outflow		
Redemption of 12% debenture (1,50,000 - 1,00,000)	(50,000)	
Interest on debenture (1,50,000 × 12%)	<u>(18,000)</u>	(68,000)
Cash flow from financing activity		<u><u>42,000</u></u>

Q No. 5: The Balance Sheets of a Prem Limited Company at 31.3.2021 and 31.3.2022 were as follows:

I. Equity and Liabilities	31.3.2021(Rs.)	31.3.2022 (Rs.)
Equity Share Capital	4500	6500
General Reserve	500	750
Profit and Loss Account	1000	1500
Debentures	1000	2000
Sundry Creditors	870	1100
Total	7870	11850
Assets	Rs.	Rs.
Fixed Assets	4600	8300
Stock	1100	1300
Debtors	1870	1950
Cash	200	2500
Preliminary Expenses	100	50
Total	7870	11850

Additional information:

Depreciation on fixed assets for the year 2021-22 was Rs. 1170. Prepare a Cash Flow Statement.

Sol. Cash flow statement (for the year ended 31.3.22)

Particular	Amount ₹	Amount ₹
A) Operating Activity		
Closing balance of profit and loss A/c	1,500	
Less : Op. balance of profit and loss A/c	<u>(1,000)</u>	500
Surplus during the year		500
Add Back : Appropriation		
Transfer to general reserve		250
Profit after tax		750
Add : Provision for tax		-
Profit before tax		750
Add : Non cash / Non operation expenses		
Preliminary expenses W/off	50	
Depreciation	<u>1,170</u>	1,220

Payal Agarwal

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
Less : Non Cash/ Non Operating income		-
Cash Operating Profit Before change in Working Capital		1,970
Adjustment for change in working Capital		
Add : Increase in Cur Liab & Decrease in Cur Ast		
Sundry creditors		230
Less : Decrease in Cur Liab & Increase in Cur Ast		
Inventory	(200)	
Debtors	<u>(80)</u>	(280)
Cash Operating Profit before extraordinary item and tax		1,920
Less : Tax Paid		-
Cash flow from Operating Activity		<u>1,920</u>
 B) Investing Activity		
Purchase of fixed assets	<u>(4,870)</u>	(4,870)
Cash used in investing Activity		<u>(4,870)</u>
 C) Financing Activity		
Issue of equity share	2,000	
Issue of debenture	<u>1,000</u>	3,000
Cash flow from financial activity		<u>3,000</u>
 Net Cash Flow [A+B+C]		50
Add : Opening Balance of Cash and Cash Eq		200
Closing balance of Cash and Cash Eq		<u>250</u>

Working note -

Adjustment of depreciation

Method 1 -

Op. bal 4600 - 1170 = 3430	4870 (purchase of asset)	Cl. bal 8300
-------------------------------	--------------------------	-----------------

Method 2 -

Fixed asset a/c

Date	Particular	l. f	Amount (₹)		Date	Particular	l. f	Amount (₹)
	To Op. balance		4.600			By depreciation		1.170
	To cash/bank (b/f)		4.870			By balance c/d		8.300
	(Pur of fixed asset)		9.470					9.470

~~HW2~~

Q No. 4: From the Following extracts of Balance sheets of Exe Ltd., Calculate Cash flow from Financing Activities:

Particulars	31st March, 2014 (Rs)	31st March, 2013 (Rs)
Equity share capital	5,25,000	4,00,000
10% Preference share capital	4,00,000	5,50,000
Securities premium Reserve	2,25,000	1,00,000
12% Debentures	4,00,000	3,00,000

Sol. Cash flow statement for financing activity

Particular	Amount ₹	Amount ₹
A) Inflow		
Issue of equity share	1.25.000	
Security premium received	1.25.000	
Issue of debenture	1.00.000	3.50.000
B) Outflow		
Redemption of preference share	(1.50.000)	
Interest on 12% debenture (4.000000 × 12%)	(48.000)	(1.98.000)
Cash flow from financing activity		1.52.000

Payal Agarwal

Note - It is assumed that 12% debenture has been issued at the beginning of the year

WQ

Q 1: From the following balances calculate cash from operations:

Profit made during the year	31st December	
	2021	2022
Bills receivable	5,000	4700
Debtors	1000	1250
Bills payable	2000	2500
Creditors	800	600
Outstanding Expenses	100	120
Prepaid Expenses	80	70
Accrued Income	60	75
Income received in advanced	80	25
Profit made during the year	-	7,000

Sol. Cash flow statement for operating activity

Particular	Amount ₹	Amount ₹
A) Operating Activity		
Surplus during the year		7,000
Adjustment for change in working Capital		
Add : Increase in Cur Liab & Decrease in Cur Ast		
Bills receivable	300	
Bills payable	500	
Prepaid expense	10	
Outstanding expense	<u>20</u>	830
Less : Decrease in Cur Liab & Increase in Cur Ast		
Debtors	(250)	
Creditors	(200)	
Accrued income	(15)	
Income received in advance	<u>(55)</u>	(520)
Cash flow from Operating Activity		<u>7,310</u>

PQ 2: Following is the Balance Sheet of ABC Co. Ltd., on at 01st January, 2022 and 31st December 2022.

(Amount In Rs.)

Particulars	01-01-2022	31-12-2022
I. Equity and Liabilities:		
Equity share capital	30,000	35000
Share premium	--	3000
General Reserve	4500	6500
Profit and Loss	3000	8080
6% Debentures	--	7000
Sundry creditors	8500	9070
Provision for taxation	2250	4050
Proposed Dividend	3000	3500
Total	51250	76200
II. Assets:		
Land and building	23,000	39000
Plant and machinery	8540	14000
Furniture	550	650
Stock	8240	9570
Sundry debtors	7500	8550
Bank balance	3420	4430
Total	51250	76200

Additional Information:

Depreciation written off during the year

Land and building	6000
Plant and machinery	5000
Furniture	120

You are required to prepare a cash flow statement Flow Statement for the year ended 31-12-2022

Sol. Cash flow statement (for the year ended 31.12.22)

Particular	Amount ₹	Amount ₹
A) Operating Activity		
Closing balance of profit and loss A/c	8.080	
Less : Op. balance of profit and loss A/c	<u>(3.000)</u>	5.080
Surplus during the year		5.080
Add Back : Appropriation		
Transfer to general reserve	2.000	
Proposed dividend	<u>3.500</u>	5.500
Profit after tax		10.580
Add : Provision for tax		4.050
Profit before tax		14.630
Add : Non cash / Non operation expenses		
Depreciation on land & building	6.000	

Payal Agarwal

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
Depreciation on Plant & machinery	5.000	
Depreciation on furniture	120	
Interest on debenture	420	11.540
Less : Non Cash/ Non Operating income		-
Cash Operating Profit Before change in Working Capital		26.170
Adjustment for change in working Capital		
Add : Increase in Cur Liab & Decrease in Cur Ast		
Increase in creditors		570
Less : Decrease in Cur Liab & Increase in Cur Ast		
Increase in stock	(1.330)	
Increase in debtors	<u>(1.050)</u>	(2.380)
Cash Operating Profit before extraordinary item and tax		24.360
Less : Tax Paid		(2.250)
Cash flow from Operating Activity		<u>22.110</u>
B) Investing Activity		
Purchase of plant & machinery	(22.000)	
Purchase of land & building	(10.460)	
Purchase of furniture	<u>(220)</u>	(32.680)
Cash used in investing Activity		<u>(32.680)</u>
C) Financing Activity		
Issue of equity share	5.000	
Security premium	3.000	
Issue of debenture	7.000	
Interest paid (7.000 × 6%)	(420)	
Dividend paid	(3.000)	11.580
Cash flow from financial activity		<u>11.580</u>

Particular	Amount ₹	Amount ₹
Net Cash Flow [A+B+C]		1.010
Add: Opening Balance of Cash and Cash Eq		3.420
Closing balance of Cash and Cash Eq		4.430

Working note -

Land & building

Method 1 -

Op. bal	Cl. bal
23.000 - 6.000	39.000
22.000 (purchase of asset)	

Method 2 -

Land & building a/c

Date	Particular	l.f	Amount (₹)	Date	Particular	l.f	Amount (₹)
	To Op. balance		23.000		By depreciation		6.000
	To cash/bank (b/f)		22.000		By balance c/d		39.000
	(Pur of land & build)		45.000				45.000

Plant & machinery

Method 1 -

Op. bal	Cl. bal
8.540 - 5.000	14.000
10.460 (purchase of asset)	

Method 2 -

Plant & machinery a/c

Date	Particular	l.f	Amount (₹)	Date	Particular	l.f	Amount (₹)
	To Op. balance		8.540		By depreciation		5.000
	To cash/bank (b/f)		10.460		By balance c/d		14.000
	(Pur of P&M)		19.000				19.000

Lecture 5

* Treatment of Provision for Tax

↓
If NO ADDITIONAL adjustment given in the QUESTION
(Assume)

↓
Previous Year's Provision for Tax
has been Paid in current year

↓
Treat as Tax Paid During
the year in Operating Activity

↓
Current Year's Provision for Tax
is Tax Expense of current year

↓
Add to Profit After tax to calculate
Profit before tax

* Treatment of Proposed Dividend

↓
If NO ADDITIONAL adjustment given in the QUESTION (Assume)

↓
Previous Year's Proposed Dividend
has been Paid in current year

↓
Cash Outflow in
Financing Activity

↓
Current Year's Proposed Dividend
if appropriation of current year

↓
Add to Appropriation to calculate
Profit After tax

Q No. 6: The following Balance Sheets are given:

I. Equity and Liabilities	2021 (Rs.)	2022 (Rs.)
Equity Share Capital	30000	40,000
Redeemable Pref. Capital	15000	10,000
General Reserve	4000	7000
Profit and Loss Account	3000	4800
Proposed Dividend	4200	5000
Creditors	5500	8300
Bills Payable	2000	1600
Provision for Taxation	4000	5000
Total	67700	81700
II. Assets		
Goodwill	11500	9000
Land and Building	20000	17000
Plant	8000	20000
Debtors	16000	20000
Stock	7700	10900
Bills Receivable	2000	3000
Cash in Hand	1500	1000
Cash at Bank	1000	800
Total	67700	81700

It is also given that:

- (a) Depreciation of Rs. 2000 on land and building and Rs.1000 on plant has been charged in 2022.
 (b) Interim dividend of Rs. 2000 has been paid in 2022.
 (c) Income tax Rs.3500 has been paid during 2022.
 Prepare Cash Flow Statement for the year 2022.

Sol. Cash flow statement

Particular	Amount ₹	Amount ₹
A) Operating Activity		
Closing balance of profit and loss A/c	4.800	
Less : Op. balance of profit and loss A/c	<u>(3.000)</u>	1.800
Surplus during the year		1.800
Add Back : Appropriation		
Transfer to general reserve	3.000	
Interim dividend	2.000	
Proposed final dividend	<u>5.000</u>	10.000
Profit after tax		11.800
Add : Provision for tax		4.500
Profit before tax		<u>16.300</u>

Payal Agarwal

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
<i>Add : Non cash / Non operation expenses</i>		
<i>Goodwill W/off</i>	<i>2.500</i>	
<i>Depreciation on land & building</i>	<i>2.000</i>	
<i>Depreciation on plant</i>	<i><u>1.000</u></i>	<i>5.500</i>
<i>Less : Non Cash/ Non Operating income</i>		<i>—</i>
<i>Cash Operating Profit Before change in Working Capital</i>		<i>21.800</i>
<i>Adjustment for change in working Capital</i>		
<i>Add : Increase in Cur Liab & Decrease in Cur Ast</i>		
<i>Increase in creditors</i>		<i>2.800</i>
<i>Less : Decrease in Cur Liab & Increase in Cur Ast</i>		
<i>Decrease in bills payable</i>	<i>(400)</i>	
<i>Increase in debtors</i>	<i>(4.000)</i>	
<i>Increase in stock</i>	<i>(3.200)</i>	
<i>Increase in bills receivable</i>	<i><u>(1.000)</u></i>	<i>(8.600)</i>
<i>Cash Operating Profit before extraordinary item and tax</i>		<i>16.000</i>
<i>Less : Tax Paid</i>		<i>(3.500)</i>
<i>Cash flow from Operating Activity</i>		<i>12.500</i>
 <i>B) Investing Activity</i>		
<i>Sale of land & building</i>	<i>1.000</i>	
<i>Purchase of plant</i>	<i><u>(13.000)</u></i>	<i>12.000</i>
<i>Cash used in investing Activity</i>		<i>12.000</i>
 <i>C) Financing Activity</i>		
<i>Issue of equity share</i>	<i>10.000</i>	
<i>Redemption of preference share</i>	<i>(5.000)</i>	

Particular	Amount ₹	Amount ₹
Interim dividend paid	(2.000)	
Final dividend paid	<u>(4.200)</u>	(1.200)
Cash flow from financial activity		<u>(1.200)</u>
Net Cash Flow [A+B+C]		(700)
Add: Opening Balance of Cash and Cash Eq		2.500
Closing balance of Cash and Cash Eq		<u>1.800</u>

Working note -

Land & building

Method 1 -

Op. bal	Cl. bal
24.000 - 2.000	17.000
1.000 (sale of asset)	

Method 2 -

Land & building a/c

Date	Particular	l. f	Amount (₹)	Date	Particular	l. f	Amount (₹)
	To Op. balance		23.000		By depreciation		2.000
					By cash/bank (sale)		1.000
					By balance c/d		17.000
			<u>20.000</u>				<u>20.000</u>

Plant & machinery

Method 1 -

Op. bal	Cl. bal
8.000 - 1.000	20.000
13.000 (purchase of asset)	

Method 2 -

Plant & machinery a/c

Date	Particular	l. f	Amount (₹)	Date	Particular	l. f	Amount (₹)
	To Op. balance		8.000		By depreciation		1.000
	To cash/bank (b/f)		13.000		By balance c/d		20.000
	(Pur of P&M)		<u>21.000</u>				<u>21.000</u>

Provision for tax

Method 1 -

Provision for tax a/c

Date	Particular	l. f	Amount (₹)	Date	Particular	l. f	Amount (₹)
	To cash/bank (tax paid)		3.500		By Op. balance		4.000
	To balance c/d		5.000		By P&L a/c (b/f) (provision created)		4.500
			<u>8.500</u>				<u>8.500</u>

Lecture 6

Q No. 7: From the following information, prepare Cash Flow Statement for Pioneer Ltd.

Balance Sheet of Pioneer Ltd. as on March 31, 2014

Particulars	Notes	31/3/14	31/3/13
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	7,00,000	5,00,000
b) Reserve and surplus	2	3,50,000	2,00,000
2. Non-current Liabilities			
a) Long-term borrowings: Bank Loan		50,000	1,00,000
3. Current Liabilities			
a) Trade payables		45,000	50,000
b) Other current liabilities: outstanding rent		7,000	5,000
c) Short-term provisions	3	1,20,000	80,000
Total		12,72,000	9,35,000
II. Assets			
1. Non-current assets			
a) Fixed assets			
(i) Tangible assets	4	5,00,000	5,00,000
(ii) Intangible assets	5	95,000	1,00,000
b) Non-current investments		1,00,000	-
2. Current assets			
a) Inventories		1,30,000	50,000
b) Trade receivables		1,20,000	80,000
c) Cash and cash equivalents	6	3,27,000	2,05,000
Total		12,72,000	9,35,000

Notes to Accounts:

Particulars	31/3/14	31/3/13
-------------	---------	---------

1. Equity Share Capital	7,00,000	5,00,000
2. Reserve and Surplus		
Surplus: i.e. Balance in Statement of Profit and Loss	3,50,000	2,00,000
3. Short-term Provision:		
Proposed Dividend	70,000	50,000
Provision for Taxation	50,000	30,000
	1,20,000	80,000
4. Fixed Assets		
i) Tangible assets		
Equipment's	2,30,000	2,00,000
Furniture	2,70,000	3,00,000
	5,00,000	5,00,000
5. Intangible Assets		
Patents	95,000	1,00,000
6. Cash and cash equivalents		
i) Cash	27,000	5,000
ii) Bank balance	3,00,000	2,00,000
	3,27,000	2,05,000

During the year, equipment costing Rs. 80,000 was purchased. Loss on Sale of equipment amounted to Rs. 5,000. Depreciation of Rs. 15,000 and Rs. 3,000 charged on equipment's and furniture respectively.

Sol. Cash flow statement (for the year ended 31.3.24)

Particular	Amount ₹	Amount ₹
A) Operating Activity		
Closing balance of profit and loss A/c	3.50.000	
Less : Op. balance of profit and loss A/c	<u>(2.00.000)</u>	1.50.000
Surplus during the year		1.50.000
Add Back : Appropriation		
Dividend paid		70.000
Profit before tax		2.20.000
Add : provision for tax		50.000
Profit after tax		2.70.000
Add : Non cash / Non operation expenses		
Depreciation on equipment	15.000	
Depreciation on furniture	3.000	
Loss on sale of equipment	5.000	
Patents W/off	<u>5.000</u>	28.000
Less : Non Cash/ Non Operating income		—
Cash Operating Profit Before change in Working Capital		2.98.000
Adjustment for change in working Capital		
Add : Increase in Cur Liab & Decrease in Cur Ast		
Increase in outstanding rent		2.000
Less : Decrease in Cur Liab & Increase in Cur Ast		
Decrease in trade payable	(5.000)	
Increase in inventories	(8.000)	
Increase in trade receivables	<u>(40.000)</u>	(1.25.000)
Cash Operating Profit before extraordinary item and tax		1.75.000
Less : Tax Paid		(30.000)
Cash flow from Operating Activity		<u>1.45.000</u>

Payal Agarwal

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
<i>B) Investing Activity</i>		
<i>Purchase of equipment</i>	<i>(80.000)</i>	
<i>Sale of equipment</i>	<i>30.000</i>	
<i>Sale of furniture</i>	<i>27.000</i>	
<i>Purchase of long term investment</i>	<i>(1.00.000)</i>	<i>(1.23.000)</i>
<i>Cash used in investing Activity</i>		<u><i>(1.23.000)</i></u>
 <i>C) Financing Activity</i>		
<i>Issue of equity share</i>	<i>2.00.000</i>	
<i>Repayment of bank loan</i>	<i>(50.000)</i>	
<i>Dividend paid</i>	<i>(50.000)</i>	<i>1.00.000</i>
<i>Cash flow from financial activity</i>		<u><i>1.00.000</i></u>
 <i>Net Cash Flow [A+B+C]</i>		<i>1.22.000</i>
<i>Add : Opening Balance of Cash and Cash Eq</i>		<i>2.05.000</i>
<i>Closing balance of Cash and Cash Eq</i>		<u><u><i>3.27.000</i></u></u>

Working note -

Equipment

Method 1 -

Equipment a/c

<i>Date</i>	<i>Particular</i>	<i>l. f</i>	<i>Amount (₹)</i>	<i>Date</i>	<i>Particular</i>	<i>l. f</i>	<i>Amount (₹)</i>
	<i>To Op. balance</i>		<i>2.00.000</i>		<i>By depreciation</i>		<i>15.000</i>
	<i>To bank a/c</i>		<i>80.000</i>		<i>By bank</i>		<i>40.000</i>
	<i>To P&L a/c</i>		<i>5.000</i>		<i>By balance c/d</i>		<i>2.30.000</i>
			<u><i>2.85.000</i></u>				<u><i>2.85.000</i></u>

Lecture 7

Q No. 8: From the following condensed comparative Balance Sheets of Hotel Hills Ltd., and additional information, prepare a Cash Flow Statement for the year 2022.

I. Equity and Liabilities	2021 (Rs.)	2022 (Rs.)
Share Capital	7000	8000
Share Premium	900	1100
Retained earnings	2382	3082
7% Mortgage loan	--	2000
Creditors	690	600
Outstanding salaries	200	140
Provision for taxation	100	140
Total	11272	15062

II. Assets	2021 (Rs.)	2022 (Rs.)
Plant & Machinery	6200	6600
Accumulation Dep. on plant and mach	(3700)	(2620)
Building	9500	11600
Accumulation depreciation on Building	(4300)	(4500)
Land	1000	1200
Stock	1022	962
Debtors	860	760
Prepaid expenses	72	80
Cash	618	980
Total	11272	15062

Additional information:

1. Plant costing Rs. 1600 (accumulated depreciation Rs. 1480) was sold during the year for Rs. 120.
2. Building was acquired during the year at a cost of Rs. 2100. In addition to cash payment of Rs. 100, 7% mortgage loan was raised for the balance.
3. Dividend of Rs. 800 was paid during the year.
4. A sum of Rs. 1390 was transferred to provision for taxation account in 2022.

Sol. Cash flow statement

Particular	Amount ₹	Amount ₹
A) Operating Activity		
Closing balance of profit and loss A/c	3,082	
Less : Op. balance of profit and loss A/c	<u>(2,382)</u>	700
Surplus during the year		700
Add Back : Appropriation		
Dividend paid		800
Profit after tax		1,500
Add : Provision for tax		1,390
Profit before tax		<u>2,890</u>

Payal Agarwal

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
<i>Add : Non cash / Non operation expenses</i>		
<i>Depreciation on plant & building</i>	400	
<i>Depreciation on building</i>	200	
<i>Interest on mortgage loan</i>	<u>140</u>	740
<i>Less : Non Cash/ Non Operating income</i>		—
<i>Cash Operating Profit Before change in Working Capital</i>		<u>3.630</u>
<i>Adjustment for change in working Capital</i>		
<i>Add : Increase in Cur Liab & Decrease in Cur Ast</i>		
<i>Decrease in stock</i>	60	
<i>Decrease in debtors</i>	<u>100</u>	160
<i>Less : Decrease in Cur Liab & Increase in Cur Ast</i>		
<i>Decrease in creditors</i>	(90)	
<i>Decrease in outstanding salary</i>	(60)	
<i>Increase in prepaid expenses</i>	<u>(8)</u>	(158)
<i>Cash Operating Profit before extraordinary item and tax</i>		<u>3.632</u>
<i>Less : Tax Paid</i>		(1.350)
<i>Cash flow from Operating Activity</i>		<u><u>2.282</u></u>
 <i>B) Investing Activity</i>		
<i>Purchase of land</i>	(200)	
<i>Payment of building</i>	(100)	
<i>Sale of plant</i>	120	
<i>Purchase of plant</i>	<u>(2.000)</u>	(2.180)
<i>Cash used in investing Activity</i>		<u><u>(2.180)</u></u>

Particular	Amount ₹	Amount ₹
C) Financial activity		
Issue of share capital	1,000	
Security premium reserve	200	
Final dividend paid	(800)	
7% mortgage loan	2,000	
Interest on mortgage loan	<u>(140)</u>	260
Cash flow from financial activity		<u>260</u>
Net Cash Flow [A+B+C]		363
Add: Opening Balance of Cash and Cash Eq		618
Closing balance of Cash and Cash Eq		<u>980</u>

Working note -

Provision for tax

Method 1 -

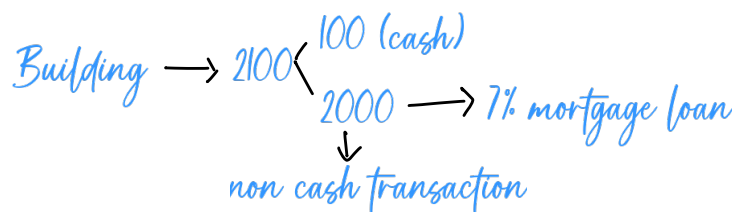
Op. bal 100 + 1,390	1,350 (tax paid)	Cl. bal 140
------------------------	------------------	----------------

Method 2 -

Provision for tax a/c

Date	Particular	l.f	Amount (₹)	Date	Particular	l.f	Amount (₹)
	To cash/bank (tax paid)		1,350		By Op. balance		100
	To balance c/d		140		By P&L a/c (b/f) (provision created)		1,390
			<u>1,490</u>				<u>1,490</u>

Land & building



Plant & machinery

Op. bal 6.200 - 1.600	Cl. bal 6.600
2.000 (purchase of asset)	

Accumulated depreciation on P&M

Op. bal 3.700 - 1.480	Cl. bal 2.620
400 (deb charged)	

Building

Op. bal 9.500 - 2.100	Cl. bal 11.600
--------------------------	-------------------

Accumulated depreciation on building

Op. bal 4.300	Cl. bal 4.500
200 (deb charged)	

Note - 7% mortgage loan was raised for payment of building purchased. therefore it is non-cash transaction

Lecture 8

Q No. 10: Balance Sheet of M/s Hero Ltd. as on 31st March, 2010 and 2011 are as follows:

Rs in '000

	31.03.10	31.03.11
Equity share capital	1,000	1,150
Capital Reserve	-	10
General reserve	250	300
Profit and loss A/c	150	180
Long term loan	500	400
Sundry Creditors	500	400
Provision for tax	50	60
Proposed Dividend	100	125
Total	2,550	2,625
Assets	31.03.10	31.03.11
Land and Building	500	480
Machinery	750	820
Investments	100	50
Stock	300	280
Sundry Debtors	400	420
Cash in hand	200	165
Cash at bank	300	410
	2,550	2,625

Additional information:

- Dividend of Rs.1,00,000 was paid during the year ended 31st March,2011.
- Machinery purchased during the year for Rs.1,25,000.
- Company sold some investment at profit of Rs. 10,000 which was credited to capital reserve.
- Depreciation written off on land and building Rs. 20,000.
- Income tax provided during the year Rs. 55,000.

From the above particulars, prepare cash flow statement for the year ended 31st March, 2011 as per AS 3 using Indirect Method.

Sol. Cash flow statement

Particular	in '000	in '000
	Amount ₹	Amount ₹
A) Operating Activity		
Closing balance of profit and loss A/c	180	
Less : Op. balance of profit and loss A/c	<u>(150)</u>	30
Surplus during the year		<u>30</u>
Add Back : Appropriation		
Transfer to general reserve	50	
Dividend declared	<u>125</u>	175
Profit after tax		<u>205</u>
Add : Provision for tax		55
Profit before tax		<u>260</u>

Payal Agarwal

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
Add : Non cash / Non operation expenses		
Depreciation on machine	55	
Depreciation on land & building	<u>20</u>	75
Less : Non Cash/ Non Operating income		—
Cash Operating Profit Before change in Working Capital		<u>335</u>
Adjustment for change in working Capital		
Add : Increase in Cur Liab & Decrease in Cur Ast		
Decrease in stock		20
Less : Decrease in Cur Liab & Increase in Cur Ast		
Decrease in creditors	(100)	
Increase in debtors	<u>(20)</u>	<u>(120)</u>
Cash Operating Profit before extraordinary item and tax		235
Less : Tax Paid		(45)
Cash flow from Operating Activity		<u><u>190</u></u>
 B) Investing Activity		
Purchase of machine	(125)	
Sale of investment	<u>60</u>	(65)
Cash used in investing activity		<u><u>(65)</u></u>
 C) Financial activity		
Issue of equity share	150	
Repayment of loan	(100)	
Payment of dividend	<u>(100)</u>	(50)
Cash flow in financial activity		<u><u>(50)</u></u>

Particular	Amount ₹	Amount ₹
Net Cash Flow [A+B+C]		75
Add: Opening Balance of Cash and Cash Eq		500
Closing balance of Cash and Cash Eq		575

Note - Increase in capital reserve is due to profit on sale of investment. Therefore such increase (appropriation) will not be added to appropriation section of cash flow statement

Working note -

Proposed dividend

Method 1 -

Op. bal 100	paid	Cl. bal 125
----------------	------	----------------

Machinery

Method 1 -

Op. bal 750 + 125	55 (depreciation)	Cl. bal 820
----------------------	-------------------	----------------

Investment

Method 1 -

Op. bal 100	60 (sale proceeds)	Cl. bal 50
----------------	--------------------	---------------

Method 2 -

Investment a/c

Date	Particular	l.f	Amount (₹)	Date	Particular	l.f	Amount (₹)
	To Op. balance		100		By cash		60
	To capital reserve		10		By balance c/d		50
			<u>110</u>				<u>110</u>

Land & building

Method 1 -

Op. bal 500 - 20	Cl. bal 480
---------------------	----------------

Method 2 -

Provision for tax a/c

Date	Particular	l. f	Amount (₹)	Date	Particular	l. f	Amount (₹)
	To Op. balance		500		By depreciation		20
					By balance c/d		480
			500				500

Provision for tax

Method 1 -

Op. bal 50 + 55	Cl. bal 60
45 (tax paid)	

Method 2 -

Provision for tax a/c

Date	Particular	l. f	Amount (₹)	Date	Particular	l. f	Amount (₹)
	To cash/bank (tax paid)		45		By Op. balance		50
	To balance c/d		60		By P&L a/c (b/f) (provision created)		55
			105				105

Q No. 9: J Ltd. presents you the following information for the year ended 31.03.2007:

Particular	Rs. '000
Net profit before tax provision	36,000
Dividends paid	10,202
Income Tax paid	5,100
Book value of assets sold	222
Loss on sale of assets	48
Depreciation debited to P&L A/c	24,000
Capital Grant received - Amortized in P&L A/c	10
Book value of investment sold	33,318
Profit on sale of investment	120
Interest income from investment credited to P&L A/c	3,000
Interest Expenses debited to P&L A/c	12,000
Interest actually paid	13,042
Increase in Working capital (Excluding cash and bank balance)	67,290
Purchase of fixed Assets	22,092
Expenditure on Construction Work	41,688
Grant received for capital project	18
Long term borrowings from banks	55,866
Provision for Income Tax debited in P&L A/c	6,000
Cash and bank balance on 01.04.2006	6,000
Cash and bank balance on 31.03.2007	8,000

You are required to prepare a Cash Flow Statement as per AS-3 (Revised).

Sol. Cash flow statement

in '000

in '000

Particular	Amount ₹	Amount ₹
A) Operating Activity		
Profit before tax		36,000
Add : Non cash / Non operation expenses		
Loss on sale of asset	48	
Depreciation	24,000	
Interest expense	<u>12,000</u>	36,048
Less : Non Cash/ Non Operating income		
Profit on sale of asset	(120)	
Cap grant amortization	(10)	
Interest income from investment	<u>(3,000)</u>	(3,130)

Payal Agarwal

<i>Particular</i>	<i>Amount ₹</i>	<i>Amount ₹</i>
Cash Operating Profit Before change in Working Capital		68.918
Adjustment for change in working Capital		
Less : Increase in working capital (outflow)		(67.290)
Cash Operating Profit before extraordinary item and tax		1.628
Less : Tax Paid		(5.100)
Cash flow from Operating Activity		(3.472)
B) Investing Activity		
Sale of asset	174	
Sale of investment	33.438	
Interest received	3.000	
Purchase of fixed asset	(22.092)	
Expenditure on construction work	(41.688)	
Capital grant received	18	(27.150)
Cash used in investing activity		(27.150)
C) Financial activity		
Final dividend paid	(10.202)	
Interest paid	(13.042)	
Bank loan raised	55.866	32.622
Cash flow in financial activity		32622
Net Cash Flow [A+B+C]		2.000
Add : Opening Balance of Cash and Cash Eq		6.000
Closing balance of Cash and Cash Eq		8.000

Practical question 1 9.8

Practical question 2 9.10

Practical question 3 9.11

Practical question 4 9.14

Practical question 5 9.12

Practical question 6 9.20

Practical question 7 9.24

Practical question 8 9.27

Practical question 9 9.35

Practical question 10 9.31

Practice question 1 9.15

Practice question 2 9.16