Illustration 6

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

P&L	₹	₹
Sales	Trading a/c	6,98,000
Cost of Goods Sold : Op Stk + Purch + D.E − Cl. stk		(5,20,000)
Gross Profit		1,78,000
Operating Expenses		
(including Depreciation Expense of ₹ 37,000)		(1,47,000)
Operating Profit		31,000
~~*Other Income / (Expenses)*~~*:*		
P&L Dr. NOE (+) *Interest Expense paid*	(23,000)	
P&L Cr.: NOI (−) *Interest Income received* (IA) — Non operating	6,000	
P&L Cr.: NOI (−) *Gain on Sale of Investments*	12,000	
P&L Dr. NOE (+) *Loss on Sale of Plant*	(3,000)	
		(8,000)
NPBT		23,000
Income tax (+) expense		(7,000)
NPAT		16,000 → 8000 Transfer to Reserves

Information available:

	31st March 20X1	31st March 20X0
	₹	₹
Plant	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000

→ Trans to Res = ₹ 8000 ← No treatment

→ Retained in P&L = ₹

Prop DIV / NPAT = 8000 / 16000

Illustration 6 :- Cash flow Statement f.t.p. 31.3.21

Particulars	Amount	Amount
I) Cash flow from Operating Activity		
Net Profit after tax	16000	
add: Tax expense/provision	7000	
Net Profit before tax	23000	
add: extraordinary expenses	x	
less: extraordinary incomes	x	
Net Profit before tax and extraordinary items	23000	
add: Non-operating expenses		
Loss on Sale of Plant	3000	
Interest Expense	23000	
less: Non-operating incomes		
Gain on sale of Investment	(12000)	
Interest Income	(6000)	
add: Operating non-cash items		
Depreciation	37000	
Operating profit before Working Capital changes	68000	
less: increase in inventory	(34000)	
add: decrease in trade receivables	8000	
add: decrease in prepaid expenses	4000	
add: increase in trade payables	7000	
add: increase in outstanding liability	3000	
Cash flow from operations	56000	
less: Income Tax paid	(9000)	
Cash flow from operating activities	47000	47000
II) Cash flow from Investing Activities		
Interest Income received	6000	
Purchased Investments	(78000)	
Proceeds from sale of investments	102000	
Purchase of plant	(120000)	
Proceeds from sale of plant	5000	
Cash used in investing activities	(85000)	(85000)

III) Cash flow from financing Activities

Interest Expense paid	(23000)	
Bonds repaid	(50000)	
Proceeds from issue of share capital	150000	
Dividend paid	(8000)	
Cash flow from financing activities	69000	69000

Cash generated during the year	31000
Opening Cash and Cash Equivalents	15000
Closing Cash and Cash Equivalents	46000

Working Notes :-

Income Tax a/c

		Op. bal.	5000
To, cash/bank (bal.)	9000	By, P&L	7000
Cl. bal.	3000		

Depreciation a/c

		Op. bal.	68000
To, Plant	2000	By, P&L	37000
Cl. bal.	103000		

Plant a/c

Op. bal.	505000	By. Cash/bank	5000
To, cash/bank	120000	By, P&L	3000
To, Bonds	100000	By. A.D.	2000
		Cl. bal.	715000

Investments a/c

Op. bal.	127000	By. Cash/Bank	102000
To cash/bank	78000		
To, P&L	12000		
		Cl. bal.	115000

Share capital a/c

		Op. bal.	315000
		By. bank	150000
Cl. bal.	465000		

Bonds

		Op. bal.	245000
To, cash/bank	50000	By. plant	100000
Cl. bal.	295000		

L56

Investments (Long term)	*1,15,000*	*1,27,000*
Inventory CA : OA	*1,44,000*	*1,10,000*
Trade receivables CA: OA	*47,000*	*55,000*
Cash	*46,000*	*15,000*
Prepaid expenses CA: OA.	*1,000*	*5,000*
Share Capital	*4,65,000*	*3,15,000*
Reserves and surplus	*1,40,000* 8000 ↑	*1,32,000*
Bonds	*2,95,000*	*2,45,000*
Trade payables CL: OA	*50,000*	*43,000*
Outstanding liabilities	*12,000*	*9,000*
Income taxes payable	*3,000*	*5,000*

Analysis of selected accounts and transactions during 20X0-X1

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

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

Cash/Bank Dr. 102000
To, Investment 90000
To, P&L 12000

Cr. C= 10000 Dr. AD = 2000
WDV = 8000
SP = 5000
L = 3000

Cash/Bank Dr. 5000
P&L Dr. 3000
A.D. Dr. 2000
To, Plant 10000

L56

Illustration 7

The balance sheets of Sun Ltd. as at 31st March 20X1 and 20X0 were as:

Particulars	Notes	20X1	20X0
		₹	₹
Equity and Liabilities			
1 Shareholder's funds			
(a) Share capital	1	60,000	50,000
(b) Reserve & surplus	2	5,000	4,000
2 Current liabilities			
(a) Trade Payables CL: OA		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 : CA : OA ✗ → IA		2,000	1,000
(b) Inventories CA: OA		17,000	14,000
(c) Trade receivables CA: OA		8,000	6,000
(d) Cash & cash equivalents	5	4,000	8,500
		70,500	***58,500***

Notes to accounts

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

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

Particulars	₹
Profit before tax	4,500
Tax expense: Current tax	(1,500)
Profit for the year : NPAT	3,000
Approp - Declared dividend	(2,000)
Retained Profit	1,000

LS6

Illustration 7:- Cash Flow Statement f.t.y.e. 31.3.21

Particulars	Amount	Amount
I) Cash Flow from Operating Activity		
Net Profit after tax	3000	
add: Tax expense/provision	1500	
Net Profit before tax	4500	
add: extraordinary expenses	x	
less: extraordinary incomes	x	
Net Profit before tax and extraordinary items	4500	
add: Non-operating expenses	x	
less: Non-operating incomes		
Profit on sale of vehicle	(700)	
add: Operating non-cash items		
Depreciation	3500	
Operating profit before working capital changes	7300	
add: Increase in Trade Payables	1500	
less: Increase in Inventory	(3000)	
less: Increase in Trade Receivables	(2000)	
Cash flow from operations	3800	
less: Income Tax paid	(1000)	
Cash flow from operating activities	2800	2800
II) Cash Flow from Investing Activity		
Purchase of current Investment	(1000)	
Proceeds from sale of vehicle	1700	
Fixtures purchased	(7000)	
Vehicles purchased	(8000)	
Cash used in investing activities	(14300)	(14300)

LS6

III) Cash flow from financing activity

Issue of share capital	10000	
Dividend paid	(3000)	
Cash flow from financing activities	7000	7000

Cash generated during the year	(4500)
Opening cash & cash equivalents	8500
Closing cash & cash equivalents	4000

Dividend a/c

		Op. bal.	1000
To cash/bank (bal.)	3000	By P&L	2000
Cl. bal	0		

Tax a/c

		Op. bal.	1000
To cash/bank (bal.)	1000	By P&L	1500
Cl. bal.	1500		

Fixtures a/c

Op. bal.	11000	By depreciation	1000
To cash/bank (bal.)	7000		
		Cl. bal.	17000

Vehicles a/c

Op. bal.	8000	By depreciation	2500
To P&L NOI (−)	700	By cash/bank	1700
To cash/bank (bal.)	8000	Cl. bal.	12500

Appropriations : Net Profit after tax

1. P&L : Retained = 1000 ✓
2. Transfer to Reserves = 0
3. Proposed Dividend = 2000

NPAT 3000

Cash/Bank Dr. 1700
To, Vehicle 1000
To, P&L 700

Further information is available:

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

3500

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

Solution

Sun Ltd.
Cash Flow Statement
for the year ended 31st March, 20X1

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 – 1,000)	(700)	
Operating profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations	3,800	
Income taxes paid (**W.N.1**)	(1,000)	
Net cash generated from operating activities		2,800

Tax Expense : Tax Expense Dr.
To. Provision for Tax → Liability

L56

Illustration 8

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 paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
P&L Loss on sale of assets (net)	40 } 145
NOE Book value of the assets sold	185
Depreciation charged to the Statement of Profit and Loss +	20,000
Profit on sale of Investments	100 } 27865
Carrying amount of Investment sold	27,765
P&L: NOI Interest income received on investments	2,506
P&L: Dr.: NOE 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 Building	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and bank balance	5,003
Closing cash and bank balance	6,988

Prepare the Cash Flow Statement for the year ended 31 March 20X1 in accordance with AS 3. (Make necessary assumptions)

Illustration 8:- Cash flow Statement f·t·y·e· 31·3·21

Particulars	Amount	Amount
I) Cash flow from Operating Activity		
Net Profit after tax	25000	
add: Tax expense/provision	5000	
Net Profit before tax	30000	
add: extraordinary expenses	-	
less: extraordinary incomes	-	
Net Profit before tax and extraordinary items	30000	
add: Non-operating expenses		
Loss on sale of assets	40	
Interest Expense	10000	
less: Non-operating incomes		
Profit on sale of investments	(100)	
Interest Income	(2506)	
add: Operating non-cash items		
Depreciation	20000	
Operating profit before working capital changes	57434	
Increase in Working Capital	(56081)	
Cash flow from operations	1353	
less: Income Tax paid	(4248)	
Cash flow from operating activities	(2895)	(2895)
II) Cash flow from Investing Activities		
Proceeds from sale of assets	145	
Proceeds from sale of investments	27865	
Interest Income Received	2506	
Purchase of fixed Assets	(14560)	
Investment in Joint Venture	(3850)	
Expenditure on Construction WIP	(34740)	
Cash used in Investing Activities	(22634)	(22634)

III) Cash flow from financing activities

Dividend paid	(8535)	
Interest paid	(10520)	
Proceeds from calls in arrears	2	
(*) Receipt of grant for capital projects	12	
Proceeds from Long Term Borrowing	25980	
Proceeds from Short Term Borrowing	20575	
Cash flow from financing activities	27514	27514
Cash generated during the year		1985
Opening cash and cash equivalents		5003
Closing cash and cash equivalents		6988

(*) In the exam show it as investing activities as ICAI in its latest materials is considering it as investing activity.

Increase in Working Capital = 56081.

CA

op. bal. 100000 → cl. bal. 200000

Inc. = 100000 → outflow (-)

CL

op. bal. 40000 → cl. bal. 50000

Inc = 10000 → Inflow (+)

Difference : Increase in W.C.
= 90000
(outflow) (-)

Solution

Star Oils Limited
Cash Flow Statement
for the year ended 31st March, 20X1

		(₹ in lakhs)
Cash flows from operating activities		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
Cash flows from investing activities		
Sale of assets (W.N.1)	145	
Sale of investments (27,765 + 100)	27,865	
Receipt of grant for capital projects	12	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	
Net cash used in investing activities		(22,622)

Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(11.7)	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

Significant non-cash items:

(a) Debenture-holders received equity shares of ₹ 15 crores on redemption of the debentures.

(b) Plant having book value of ₹ 12 crores was given in exchange of an asset costing ₹ 21 crores. The said plant was transferred at a value of ₹ 10 crores only, and ₹ 11 crores was paid for the balance dues towards the plant.

Illustration 12

From the following information 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

	As on 1.4.20X0 ₹	**As on 1.4.20X1** ₹
Zen's Capital A/c	10,00,000	12,24,000
Trade payables CL	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
Cost *Plant and Machinery (net block)*	6,40,000	4,40,000
Inventories CA	2,80,000	2,00,000
Trade receivables CA	2,40,000	4,00,000
Cash	80,000	56,000

I) Cash flow from Operating Activity		
Net Profit after tax	360000	
add: Tax expense/provision	x	
Net Profit before tax	360000	
add: extraordinary expenses	x	
less: extraordinary incomes	x	
Net Profit before tax and extraordinary items	360000	
add: Non-operating expenses		
loss on sale of P&M	16000	
less: Non-operating incomes		
add: Operating non-cash items		
Depreciation	144000	
Operating profit before working capital changes	520000	
add: Increase in Trade payables	32000	
add: decrease in Inventory	80000	
less: increase in Trade receivables	(160000)	
Cash flow from operations	472000	
less: Income Tax paid	x	
Cash flow from operating activities	472000	472000
II) Cash flow from Investing Activity		
Purchase of land	(280000)	
Proceeds from sale of P&M	40000	
Cash used in investing activities	(240000)	(240000)

III) Cash Flow from Financing Activity

Mrs. Zen loan repaid	(200000)	
Loan from bank	80000	
Mr. Zen's drawings	(136000)	
Cash used in financing activities	(256000)	(256000)
Cash generated during the year		(24000)
Opening cash and cash equivalents		80000
Closing cash and cash equivalents		56000

Zen's Capital a/c

		Op. bal.	1000000
To, cash/bank (bal.)	136000	By, P&L	360000
Cl. bal.	1224000		

Plant & Machine a/c

Op. bal.	840000	By. cash/bank	40000
		By. P&L	16000
		By. A.D.	24000
		Cl. bal.	760000

Depreciation a/c

To, P&M	24000	Op. bal.	200000
		By. P&L (bal.)	144000
Cl. bal.	320000		

C − D = 640000
C − 200000 = 640000
C = 840000

C − D = 440000
C − 320000 = 440000
C = 760000

* If accumulated depreciation is separately given in the question, then Plant & Machinery will be recorded at cost and not the net block.

Cash/Bank Dr. 40000
P&L Dr. 16000
A.D. Dr. 24000
To P&M 80000

C = 80000 AD = 24000
WDV = 56000
SP = 40000
L = 16000

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.

Solution

Cash Flow Statement of Mr. Zen as per AS 3 for the year ended 31.3.20X1

			₹
(i)	**Cash flow from operating activities**		
	Net Profit (given)		3,60,000
	Adjustments for		
	Depreciation on Plant & Machinery (W.N.2)	1,44,000	
	Loss on Sale of Machinery (W.N.1)	16,000	1,60,000
	Operating Profit before working capital changes		5,20,000
	Decrease in inventories	80,000	
	Increase in trade receivables	(1,60,000)	
	Increase in trade payables	32,000	(48,000)
	Net cash generated from operating activities		4,72,000
(ii)	**Cash *flow from* investing activities**		
	Sale of Machinery (W.N.1)	40,000	
	Purchase of Land (8,80,000 – 6,00,000)	(2,80,000)	
	Net cash used in investing activities		(2,40,000)