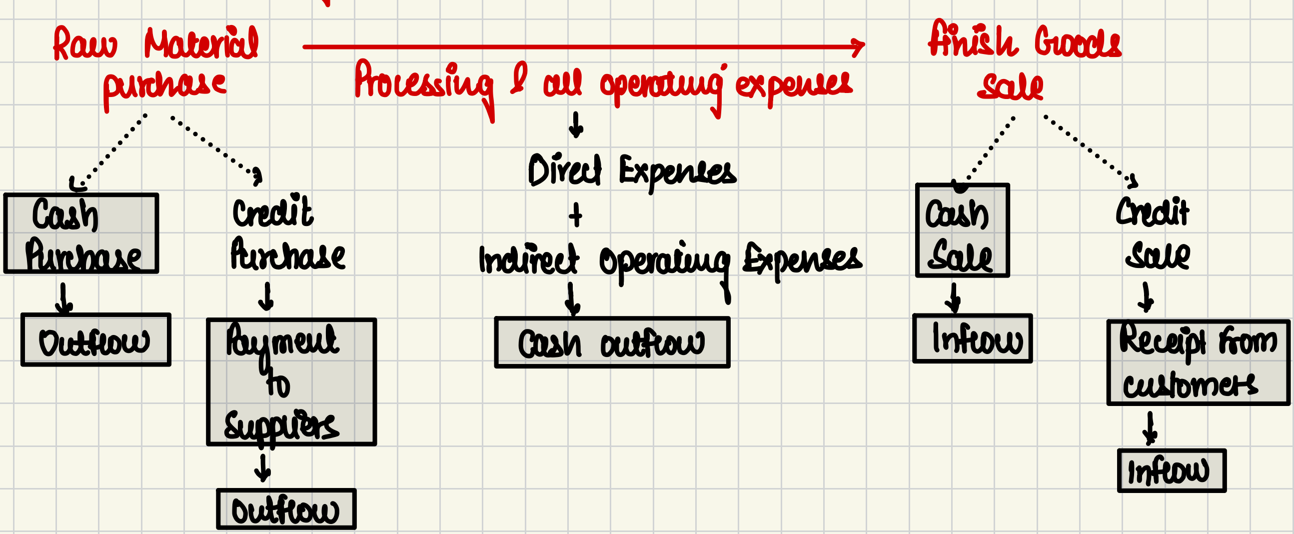
DIRECT METHOD

LS8

Cash flow from Operating Activity

1) Cash sales and Receipt from customers	Inflow
2) less : Cash purchases and payment to suppliers	Outflow
3) less : Operating expenses paid	Outflow
Cash flow from operations	
4) less : Income Tax paid	Outflow
Cash flow from operating activities.	

Operating Activity



* Cash flow from investing and financing activities is exactly the same as discussed in indirect method.

158

Cash flows from financing activities:

Proceeds from debentures (Refer Working Note)	2,50,000
Interest paid on Debentures [less unpaid]	(70,000)
Net Cash from Financing Activities	1,80,000

Working Note:

10% Debentures Account

Particulars	**₹**	***Particular***	**₹**
To Balance c/d	7,50,000	By Balance b/d	5,00,000
		By Bank A/c (Bal. fig.)	2,50,000
	7,50,000		7,50,000

Illustration 3

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

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

Receipts Payments

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d x	*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 IA	*30,000*	*By Investment* IA	*25,000*
To Loan from Bank FA	*1,00,000*	*By Repayment of Loan* FA	*75,000*
To Interest & Dividend IA	*1,000*	*By Interest on loan* FA	*10,000*
		By Balance c/d x	*1,04,000*
	5,96,000		*5,96,000*

Illustration 3 :- Cash flow Statement

Particulars	Amount	Amount
1) Cash flow from operating activities		
Cash Sales and Receipts from customers 140000 + 175000 ~~+ 50000~~	365000 -(50000)	
Trade Commission	50000	
less: Cash purchases and payments to suppliers 120000 + 157000	(277000)	
less: Operating expenses paid 75000	(75000)	
Cash flow from operations	13000	
less: Income Tax paid	(30000)	
Cash flow from operating activity	(17000)	(17000)

Solution

Cash Flow Statement of ……
for the year ended March 31, 20X1(Direct Method)

Particulars	₹	₹
Operating Activities:		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchases	1,20,000	
Payment to Trade payables	1,57,000	
Office and Selling Expenses	75,000	
Payment for Income Tax	30,000	(3,82,000)
Net Cash Flow used in Operating Activities		(17,000)

Illustration 4

smins

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

Summary Cash Account

		(₹ '000)
Balance at 1.3.20X1 → Op C&CE		*35*
Receipts from customers CS & RFO		*2,783*
Issue of shares FA		*300*
Sale of fixed assets IA		*128*
		3,246
Payments to suppliers CP & PTS	*2,047*	
Payments for property, plant & equipment IA	*230*	
Payments for overheads OEP	*115*	

Receipts

Payments

LSB

Wages and salaries OEP	*69*	
Taxation ITP	*243*	
Dividends FA	*80*	
Repayments of bank loan FA	*250*	*(3,034)*
Balance at 31.3.20X2 → CL- C&CE		*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.

Solution

Hills Ltd.
Cash Flow Statement for the year ended 31st March, 20X2
(Using direct method)

		(₹'000)
Cash flows from operating activities		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	(115)	
Cash generated from operations	552	
Income taxes paid	(243)	
Net cash from operating activities		309
Cash flows from investing activities		
Payments for purchase of fixed assets	(230)	
Proceeds from sale of fixed assets	128	
Net cash used in investing activities		(102)

CFFOA
1. CS & RFC.
2. CP & PTS
3. OEP
4. ITP

LS8

Cash flows from financing activities		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
Net cash used in financing activities		(30)
Net increase in cash and cash equivalents		177
Cash and cash equivalents at beginning of period		35
Cash and cash equivalents at end of period		212

Illustration 5

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 20X1 with the help of the following information: CFFOA : CS & RFC → D

(1) *Company sold goods for cash only.* → credit sales = 0   Cr. sales ×

(2) *Gross Profit Ratio was 30% for the year, gross profit amounts to ₹ 3,82,500.* → 30% : 100%

(3) *Opening inventory was lesser than closing inventory by ₹ 35,000.*   = 1275000

(4) *Wages paid during the year ₹ 4,92,500.* → OEP   Sales → Cash Sales

(5) *Office and selling expenses paid during the year ₹ 75,000.* → OEP

(6) *Dividend paid during the year ₹ 30,000.* → FA

(7) *Bank loan repaid during the year ₹ 2,15,000 (included interest ₹ 15,000).* → FA

(8) *Trade payables on 31st March, 20X0 exceed the balance on 31st March, 20X1 by ₹ 25,000.*

(9) *Amount paid to trade payables during the year ₹ 4,60,000.* → PTS

(10) *Tax paid during the year amounts to ₹ 65,000 (Provision for taxation as on 31.03.20X1 ₹ 45,000).* ×

(11) *Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.* IA

(12) *Depreciation on fixed assets amounts to ₹ 85,000.* ×

(13) *Plant and machinery purchased on 15th November, 20X0 for ₹ 2,50,000.* IA

(14) *Cash and Cash Equivalents on 31st March, 20X0 ₹ 2,00,000.* Open. C&CE

(15) *Cash and Cash Equivalents on 31st March, 20X1 ₹ 6,07,500.* Clos. C&CE

Assume : CS = 100,000   O = Cash   435000 = Credit

Trading

OS	65000	S	1275000
P (bal)	435000		
DE	492500	CS	100000
GP	382500		

Trade Payables

		Op bal	100000
To cash	460000	By purch	435000
C bal	75000	(Cr. purch)	

Illustration 5 :- Cash Flow Statement (Direct Method)

Particulars	Amount	Amount
I) Cash flow from operating activities		
Cash Sales and Receipt from customers 1275000 0	1275000	
Cash purchase and payment to suppliers 0 460000	(460000)	
Operating Expenses paid Wages = 492500 office & Selling Exp = 75000	(567500)	
Cash flow from operations	247500	
less: Income Tax paid	(65000)	
Cash flow from operating activities	182500	182500
II) Cash flow from Investing Activities		
Proceeds from sale of investments	720000	
Purchase of Plant & Machine	(250000)	
Cash flow from Investing Activities	470000	470000
III) Cash flow from financing activities		
Dividend paid	(30000)	
Bank loan repaid	(200000)	
Interest paid	(15000)	
Cash used in financing activities	(245000)	(245000)
cash generated during the year		407500
Opening cash and cash equivalents		200000
Closing cash and cash equivalents		607500

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$30\% = \frac{382500}{\text{Sales}} \times 100$$

$$\text{Sales} = 1275000 \rightarrow \text{Total Sales}$$

L58

Cash Sales = Total Sales - Credit Sales
= 1275000 - 0
= 1275000

Trading a/c

Open. Inv.	65000	Sales	1275000
Purchase (bal.)	435000		
Wages	492500		
Gross Profit	382500	Closing Inv	100000

Assumption :- closing Inventory : 100,000

Trade Payables

		Op. bal.	100,000
To, cash	460,000	By, purchase (bal.) (cr. purch.)	435000
cl. bal.	75000		

Assumption :- op bal = 100,000

Cash purchase = Total purchase − Credit purchase
= 435000 − 435000
= 0

L58

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

Working note:

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

Illustration 9 → Homework

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 20X1 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.20X1

	₹'000		₹'000
Balance on 1.4.20X0 Op C&CE	*50*	*Payment to Suppliers* OA	*2,000*
Issue of Equity Shares FA	*300*	*Purchase of Fixed Asset* IA	*200*
Receipts from Customers OA	*2,800*	*Overhead expense* OA	*200*
Sale of Fixed Assets IA	*100*	*Wages and Salaries* OA	*100*

		Taxation OA	*250*
		Dividend FA	*50*
		Repayment of Bank Loan FA	*300*
		Balance on 31.3.20X1 Cl. C&CE	*150*
	3,250		*3,250*

Solution

X Ltd.
Cash Flow Statement for the year ended 31st March, 20X1
(Using direct method)

	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash generated from operating activities		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at the beginning of the year		50
Cash at the end of the year		150

CFFOA
1. CS & RFC
2. CP & PTS
3. OEP
4. ITP

Self Study → 10mins

LSB

Trade receivables	250–400 (150)	
Inventories	180–200 (20)	
Trade payables	250–230 20	
Outstanding wages	50–40 10	
Outstanding expenses	20–10 10	(130)
Cash flow from operating activities		445

Illustration 11

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.20X1 from the following information:

CS = 135 × 60% = 81cr. Credit Sales = 54

(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%.* Cash Purch = 11 Credit Purch = 44

(3) *Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.* OEP = 40cr.

(4) *The Company redeemed debentures of ₹ 20 crores at a premium of 10%.* = 22 cr. *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.* → FA; 7cr. → FA

(5) *Dividend paid during the year amounted to ₹ 11.7 crores.* → FA.

(6) *Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.* 14.4 → IA.

(7) *₹ 8 crores was paid towards income tax during the year.* ITP

(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.*

21 → NP
10 OP
11 → cash → IA

(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

Solution

Gamma Ltd.
Cash Flow Statement for the year ended 31st March, 20X1
(Using direct method)

Particulars	₹ in crores	₹ in crores
Cash flows from operating activities		
Cash sales (60% of 135)	81	
Cash receipts from Debtors	49	
[45+ (135x40%) - 50]		
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers	(42)	
[21+ (55x80%) – 23]		
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	
Income tax paid	(8)	
Net cash generated from operating activities		29
Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 – 10)	(11)	
Net cash generated from investing activities		3.4

LS8

- Depreciation is to be provided on Plant & Machinery at 10% on Cost.
- Provision for Income tax is required @ 30%.

You are required to prepare Shivam Ltd.'s Profit and Loss A/c for the year ended 31st March, 2024 and Balance Sheet as at that date as per the provisions of the Companies Act, 2013 after considering the above information. Ignore previous year figures.

Homework

3. (a) On the basis of the following data, prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2024 : 7

Book 33m

- Total Sales for the year were ₹ 380 lakhs out of which Cash Sales amounted to ₹ 262 Lakhs.
- Receipts from credit customers during the year, total ₹ 134 lakhs.
- Total Purchases for the year amounted to ₹ 220 lakhs, out of which 80% were credit purchases.
- Opening balance in creditors ₹ 84 lakhs and Closing balance in creditors ₹ 92 lakhs.
- Suppliers of other consumables and services were paid ₹ 19 lakhs in cash.
- Employees of the enterprise were paid ₹ 20 lakhs in cash.
- Fully-paid preference shares of the face value of ₹ 32 lakhs were redeemed.
- Issued equity shares of the face value of ₹ 20 lakhs at a premium of 20%.
- Debenture of ₹ 20 lakhs at premium of 10% were redeemed by issuing equity shares in lieu of their claims.
- ₹ 26 lakhs were paid by way of Income Tax.
- A new machinery costing ₹ 20 lakhs was purchased in a part exchange of an old machinery. The book value of the old machinery was ₹ 13 lakhs, but the vendor agreed to take over the old machinery at a higher value of ₹ 15 lakhs. The balance due to vendor was paid in cash. 5

P.T.O.

- Dividend ₹ 15 lakhs (including dividend distribution tax of ₹ 2.7 lakhs) was also paid on 30th March, 2024.
- Debenture interest ₹ 3 lakhs was paid.
- During the year ₹ 8 lakhs rent was received from property held as investment. IA
- ₹ 0.50 lakh interest was earned on the advance payments to suppliers of Goods. OA Normal course
- Cash and cash equivalents on 1st April 2023, ₹ 2 lakhs.

(b) Aerodots Ltd. has the following capital structure as on 31.03.2024 : 7

Book
Nom

Particulars	Amount (₹ in thousands)
• Equity Share Capital (shares of ₹ 10 each)	600
Reserves :	
• General Reserve	540
• Securities Premium	200
• Profit & Loss	100
• Revaluation Reserve	30
• Investment Allowance Reserve (Statutory Reserve)	75
• Infrastructure Development Reserve	25
• Loan Funds	2000

On 1st April, 2024 the company wants to buy back 14,000 equity shares of ₹ 10 each at ₹ 30 per Equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back.

Buy Back of shares is duly authorized by its articles and necessary resolution has been passed by the company.

3		***Current liabilities***			
	A	*Short-term borrowings (Bank loan)* FA		1,50,000	3,00,000
	B	*Trade payables* WCC		8,80,000	8,20,000
	C	*Other current liabilities*	2	4,80,000	2,70,000
		Total		**91,60,000**	**1,09,80,000**
		Assets			
1		***Non-current assets***			
	A	*Property, plant and Equipment*	3	21,20,000	32,80,000
2		***Current assets***			
	A	*Current Investments* IA		11,80,000	15,00,000
	B	*Inventory* WCC		20,10,000	19,20,000
	C	*Trade receivables* WCC	4	22,40,000	26,40,000
	D	*Cash and Cash equivalents*		15,20,000	15,20,000
	E	*Other Current assets (Prepaid expenses)* WCC		90,000	1,20,000
		Total		**91,60,000**	**1,09,80,000**

Notes to accounts

No.	***Particulars***		***₹20X0***	***20X1***
1	***Long term borrowings***			
	9% Debentures (issued at the end of year)		-	9,00,000
	Total Interest ×		-	**9,00,000**
2.	***Other current liabilities***			
	Dividend payable		1,50,000	-
	Liabilities for expenses CL: WCC		3,30,000	2,70,000
	Total		**4,80,000**	**2,70,000**

PDD

150000

230000 By P&L 270000

190000

O.E.
↓
N.C.

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

Additional Information:

(i) *Net profit for the year ended 31st March, 20X1, after charging depreciation ₹ 1,80,000 is ₹ 10,40,000.*

(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.*

14. *Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.* → Homework

Particulars	**Note No.**	**31st March,20X2 (₹)**	**31st March,20X1 (₹)**
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions		8,000	5,000
(Provision for taxation)			
Total		7,53,000	3,90,000

4. **Accumulated Depreciation Account**

	₹		₹
To Property, plant and equipment A/c	80,000	By Balance b/d	9,20,000
To Property, plant and equipment A/c	40,000	By Profit and loss A/c (depreciation for the year)	3,60,000
To Balance c/d	11,60,000		
	12,80,000		12,80,000

13. **Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1**

Cash flows from Operating Activities	₹	₹
Net Profit	10,40,000	
Add: Adjustment For Depreciation (₹7,90,000 – ₹6,10,000)	1,80,000	
Add: Adjustment for Provision for Doubtful Debts (₹ 4,20,000 – ₹1,50,000) Cr. Dr. (230000 + 190000)	2,70,000	
Operating Profit Before Working Capital Changes	14,90,000	
Add: Decrease in Inventories (₹ 20,10,000 – ₹ 19,20,000)	90,000	
	15,80,000	
Less: Increase in Current Assets		
Trade Receivables +230000 (₹ 30,60,000 – ₹23,90,000) 2830000 6,70,000		
Prepaid Expenses (₹ 1,20,000 – ₹90,000) 30,000		

Decrease in Current Liabilities:			
Trade Payables (₹ 8,80,000 – ₹ 8,20,000)	60,000		
Expenses Outstanding (₹ 3,30,000 – ₹ 2,70,000)	60,000	(8,20,000)	
Net Cash generated from Operating Activities			7,60,000
Cash Flows from Investing Activities			
Investment in Current Investments		(3,20,000)	
Purchase of Plant & Machinery (₹ 40,70,000 – ₹ 27,30,000)		(13,40,000)	
Net Cash Used in Investing Activities			(16,60,000)
Cash Flows from Financing Activities			
Bank Loan Raised (₹ 3,00,000 – ₹ 1,50,000)		1,50,000	
Issue of Debentures		9,00,000	
Payment of Dividend		(1,50,000)	
Net Cash Used in Financing Activities			9,00,000
Net Increase in Cash During the Year			-
Add: Cash and Cash Equivalents as on 1.4.20X0			15,20,000
Cash and Cash Equivalents as on 31.3.20X1			15,20,000

Note:

1. Bad debts amounting ₹ 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.