

CASH FLOW STATEMENT**INDEX**

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Quote:**“The Past can-not be changed.****The Future is yet in your power”**

SECTION - A**(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced in the Class)****SERIES 100****BASICS****Q.CFS.SM.101: (RTP May20)**

Classify the following activities as Operating Activities, Investing Activities, Financing Activities & Cash Equivalents.



- (a) Purchase of Machinery.
- (b) Proceeds from issuance of equity share capital
- (c) Cash Sales.
- (d) Proceeds from long-term borrowings.
- (e) Proceeds from Trade receivables.
- (f) Cash receipts from Trade receivables.
- (g) Trading Commission received.
- (h) Purchase of investment.
- (i) Redemption of Preference Shares.
- (j) Cash Purchases.
- (k) Proceeds from sale of investment
- (l) Purchase of goodwill.
- (m) Cash paid to suppliers.
- (n) Interim Dividend paid on equity shares.
- (o) Wages and salaries paid.
- (p) Proceed from sale of patents.
- (q) Interest received on debentures held as investment.
- (r) Interest paid on Long-term borrowings.
- (s) Office and Administration Expenses paid
- (t) Manufacturing Overheads paid.
- (u) Dividend received on shares held as investments.
- (v) Rent Received on property held as investment.
- (w) Selling and distribution expense paid.
- (x) Income tax paid
- (y) Dividend paid on Preference shares.
- (z) Underwritings Commission paid.
- (aa) Rent paid.
- (bb) Brokerage paid on purchase of investments.
- (cc) Bank Overdraft
- (dd) Cash Credit
- (ee) Short-term Deposits
- (ff) Marketable Securities
- (gg) Refund of Income Tax received.

SOLUTION

- (a) Operating Activities: c, e, f, g, j, m, o, s, t, w, x, aa & gg.
- (b) Investing Activities: a, h, k, l, p, q, u, v, bb & ee.
- (c) Financing Activities: b, d, i, n, r, y, z, cc & dd.
- (d) Cash Equivalent: ff.



Q.CFS.SM.102:

Classify the following activities as per AS 3 Cash Flow Statement:

- (i) Interest paid by financial enterprise
- (ii) Tax deducted at source on interest received from subsidiary company
- (iii) Deposit with Bank for a term of two years
- (iv) Insurance claim received towards loss of machinery by fire
- (v) Bad debts written off

SOLUTION

- (i) Interest paid by financial enterprise
Cash flows from operating activities
- (ii) TDS on interest received from subsidiary company
Cash flows from investing activities
- (iii) Deposit with bank for a term of two years
Cash flows from investing activities
- (iv) Insurance claim received against loss of fixed asset by fire
Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'
- (v) Bad debts written off
It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

SERIES 200
DIRECT METHOD

Q.CFS.SM.201: (RTP May21)

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

Summary Cash Account

		(Rs '000)
Balance at 1.3.20X1		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		3,246
Payments to suppliers	2,047	
Payments for fixed assets	230	
Payments for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayments of bank loan	250	(3,034)
Balance at 31.3.20X2		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)**

Particulars		(Rs '000)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
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
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payments for purchase of fixed assets	(230)	
Proceeds from sale of fixed assets	128	
Net cash used in investing activities		(102)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
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

Q.CFS.SM.202:

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

Company sold goods for cash only.

1. Gross Profit Ratio was 30% for the year, gross profit amounts to Rs 3,82,500.
2. Opening inventory was lesser than closing inventory by Rs 35,000.
3. Wages paid during the year Rs 4,92,500.
4. Office and selling expenses paid during the year Rs 75,000.
5. Dividend paid during the year Rs 30,000 (including dividend distribution tax.)
6. Bank loan repaid during the year Rs 2,15,000 (included interest Rs15,000)
7. Trade payables on 31st March, 20X0 exceed the balance on 31st March, 20X1 by Rs 25,000.
8. Amount paid to trade payables during the year Rs 4,60,000.
9. Tax paid during the year amounts to Rs 65,000 (Provision for taxation as on 31.03.20X1 Rs 45,000).
10. Investments of Rs 7,00,000 sold during the year at a profit of Rs20,000.
11. Depreciation on fixed assets amounts to Rs 85,000.
12. Plant and machinery purchased on 15th November, 20X0 for Rs 2,50,000.
13. Cash and Cash Equivalents on 31st March, 20X0 Rs2,00,000.
14. Cash and Cash Equivalents on 31st March, 20X1 Rs6,07,500.

SOLUTION**M/s MNT Ltd.**

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

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

Q.CFS.SM.203:

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

- (1) Sales for the year amounted to Rs135 crores out of which 60% was cash sales.
- (2) Purchases for the year amounted to Rs55 crores out of which credit purchase was 80%.



- (3) Administrative and selling expenses amounted to Rs18 crores and salary paid amounted to Rs22 crores.
- (4) The Company redeemed debentures of Rs20 crores at a premium of 10%. Debenture holders were issued equity shares of Rs15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was Rs1.5 crores.
- (5) Dividend paid during the year amounted to Rs11.7 crores (including Dividend distribution tax) was also paid.
- (6) Investment costing Rs12 crores were sold at a profit of Rs2.4 crores.
- (7) Rs8 crores was paid towards income tax during the year.
- (8) A new plant costing Rs21 crores was purchased in part exchange of an old plant. The book value of the old plant was Rs12 crores but the vendor took over the old plant at a value of Rs10 crores only. The balance was paid in cash to the vendor.
- (9) The following balances are also provided:

	Rs in crores 1.4.20X0	Rs in crores 31.3.20X1
Debtors	45	50
Creditors	21	23
Bank	6	

SOLUTION

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

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

Q.CFS.RMP.204: (RTP May'18)

A company provides you the following information:

- (i) Total sales for the year were Rs. 398 crores out of which cash sales amounted to Rs. 262 crores.
- (ii) Receipts from credit customers during the year, aggregated Rs. 134 crores.



- (iii) Purchases for the year amounted to Rs. 220 crores out of which credit purchase was 80%.
Balance in creditors as on
1.4.2016 Rs. 84 crores
31.3.2017 Rs. 92 crores
- (iv) Suppliers of other consumables and services were paid Rs. 19 crores in cash.
- (v) Employees of the enterprises were paid 20 crores in cash.
- (vi) Fully paid preference shares of the face value of Rs. 32 crores were redeemed. Equity shares of the face value of Rs. 20 crores were allotted as fully paid up at premium of 20%.
- (vii) Debentures of Rs. 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
- (viii) Rs. 26 crores were paid by way of income tax.
- (ix) A new machinery costing Rs. 25 crores was purchased in part exchange of old machinery. The book value of the old machinery was Rs. 13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of Rs. 15 crores. The balance was paid in cash to the vendor.
- (x) Investment costing Rs. 18 crores were sold at a loss of Rs. 2 crores.
- (xi) Dividends amounting Rs. 15 crores (including dividend distribution tax of Rs. 2.7 crores) was also paid.
- (xii) Debenture interest amounting Rs. 2 crore was paid.
- (xiii) On 31st March 2016, Balance with Bank and Cash on hand was Rs. 2 crores.
- On the basis of the above information, you are required to prepare a Cash Flow Statement for the year ended 31st March, 2017 (Using direct method).

SOLUTION**Cash flow statement (using direct method) for the year ended 31st March, 2017**

	(Rs. in crores)	(Rs. in crores)
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less: Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	
Net cash used in financing activities		(25)
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2016		2
Cash and cash equivalents as on 31.3.2017		102

Working Note:**Calculation of cash paid to suppliers of goods and services and to employees**

	(Rs. in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176



Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees	251
[(a)+ (b) + (c)]	

SERIES 300 **INDIRECT METHOD**

Q.CFS.SM.301: (MTP May'23)

How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 20X2?



10% Debentures issued:	As on 01-04-20X1	Rs. 1,10,000
	As on 31-03-20X2	Rs. 77,000

Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.

Unpaid Interest on Debentures:	As on 01-04-20X1	Rs. 275
	As on 31-03-20X2	Rs. 1,175

Debtors of Rs. 36,000 were written off against the Provision for Doubtful Debts A/c during the year.

10% Bonds (Investments):	As on 01-04-20X1	Rs. 3,50,000
	As on 31-03-20X2	Rs. 3,50,000
	As on 31-03-20X2	Rs. 10,500

SOLUTION

Cash Flow Statement of M/s Gagan Ltd. for the year ended March 31, 20X2

A	<u>CASH FLOW FROM OPERATING ACTIVITIES</u>	
	Net Profit as per Profit & Loss A/c	xxxx
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
B	<u>CASH FLOW FROM INVESTING ACTIVITIES</u>	
	Interest on Investments [35,000-10,500]	24,500
C	<u>CASH FLOW FROM FINANCING ACTIVITIES</u>	
	Interest on Debentures paid [11,000 - (1,175 - 275)] -outflow	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium] - outflow	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

Q.CFS.SM.302:

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

		31.3.20X1	31.3.20X2
	Equity and Liabilities	Rs	Rs
	Shareholder's funds		
a.	Share Capital	1	5,00,000

b.	Reserves & 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

		31.03.20X1 (Rs.)	31.03.20X2 (Rs.)
1	Share Capital 50,000 Equity Shares of Rs. 10 each	5,00,000	5,00,000
2	Reserves & 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

You are required to show the related items in Cash Flow Statement, if Discount on issue of Debentures amounting to Rs 10,000 has been written off during the year.

SOLUTION**An Extract of Cash Flow Statement for the year ending 31.3.20X2**

	Rs
Closing balance as per Profit & Loss A/c	90,000
Less: Opening balance as per Profit & Loss Alc.	(50,000)
Add: Goodwill amortisation	25,000
Interest on Debentures	75,000
Discount	10,000
Net Cash from Operating Activities	1,50,000

Cash flows from financing activities:

Proceeds from debentures	2,40,000
Interest paid on Debentures [less unpaid]	(70,000)
Net Cash from Financing Activities	1,70,000

Q.CFS.SM.303:

The following data were provided by the accounting records of Ryan Ltd. at year-end, March 31, 20X1:

Income Statement

	Rs
Sales	6,98,000
Cost of Goods Sold	(5,20,000)
Gross Margin	1,78,000
Operating Expenses (Including Depreciation Expense of Rs 37,000)	(1,47,000)
Other Income / (Expenses)	31,000
Interest Expense paid	(23,000)
Interest Income received	6,000
Gain on Sale of Investments	12,000

Loss on Sale of Plant	(3,000)	
		(8,000)
		23,000
Income tax		(7,000)
		16,000

Comparative Balance Sheets

	31 st March	31 st March
Assets		
Plant Assets	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Current Assets:		
Inventory	1,44,000	1,10,000
Accounts receivable	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
	9,65,000	7,49,000
Liabilities		
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Current liabilities:		
Accounts payable	50,000	43,000
Accrued liabilities	12,000	9,000
Income taxes payable	3,000	5,000
	9,65,000	7,49,000

Analysis of selected accounts and transactions during 20X0-X1

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

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

SOLUTION

Ryan Ltd. Cash Flow Statement for the year ending 31st March, 20X1

Particulars	Rs	Rs
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	

Operating profit before working capital changes	68,000	
Decrease in accounts receivable	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in accounts payable	7,000	
Increase in accrued liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
Net cash generated from operating activities		47,000
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of plant	(1,20,000)	
Sale of plant	5,000	
Purchase of investments	(78,000)	
Sale of investments	1,02,000	
Interest received	6,000	
Net cash used in investing activities		(85,000)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
Net cash from financing activities		69,000
Net increase in cash and cash equivalents		31,000
Cash and cash equivalents at the beginning of the period		15,000
Cash and cash equivalents at the end of the period		46,000

Working Note:*Rs**

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

Q.CFS.SM.304:

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

	20X1	20X0
	Rs	Rs
Equity Share Capital	60,000	50,000
Reserves:		
Profit and Loss Account	5,000	4,000
Current Liabilities:		
Trade payables	4,000	2,500
Other Current Liabilities	-	1,000
Taxation	1,500	1,000
Total	70,500	58,500
Fixed Assets (at W.D.V.)		
Premises	10,000	10,000
Fixtures	17,000	11,000
Vehicles	12,500	8,000
Short-term investments	2,000	1,000
Current Assets		



Inventory	17,000	14,000
Trade receivables	8,000	6,000
Bank and Cash	4,000	8,500
Total	70,500	58,500

Notes to accounts

		20X1 (Rs.)	20X0 (Rs.)
1	Share Capital		
	Equity Shares of Rs.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 account for the year ended 31st March, 20X1 disclosed

Profit before tax	4,500
Taxation	(1,500)
Profit after tax	3,000
Declared dividends	(2,000)
Retained profit	1,000

Further information is available

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

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

Particulars	Rs	Rs
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
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
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sale of vehicles	1,700	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
Net cash used in investing activities		(14,300)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(3,000)	
Net cash from financing activities		7,000
Net decrease in cash and cash equivalents		(4,500)
Cash and cash equivalents at beginning of period (See Note)		8,500
Cash and cash equivalents at end of period (See Note)		4,000
Note to the Cash Flow Statement		
Cash and Cash Equivalents	31.3.20X1	31.3.20X0
Bank and Cash	4,000	8,500
Cash and cash equivalents	4,000	8,500

Working Notes:

	Particulars	Rs	Rs
1.	Income taxes paid		
	Income tax expense for the year		1,500
	Add: Income tax liability at the beginning of the year		1,000
			2,500
	Less: Income tax liability at the end of the year		(1,500)
			1,000
2.	Dividend paid		
	Declared dividend for the year		2,000
	Add: Amount payable at the beginning of the year		1,000
			3,000
	Less: Amount payable at the end of the year		-
			3,000
3.	Fixed assets acquisitions		
		Fixtures	Vehicles
		Rs	Rs
	W.D.V. at 31.3.20X1	17,000	12,500
	Add back:		
	Depreciation for the year	1,000	2,500
	Disposals	—	1,000
		18,000	16,000
	Less: W.D.V. at 31.12.20X0	(11,000)	(8,000)
	Acquisitions during 20X0-20X1	7,000	8,000

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

Q.CFS.SM.305:

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:

	(Rs 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

SOLUTION

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

Particulars	(Rs in lakhs)	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
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		(2895)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
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		
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:

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

Assumption: Interest income on investments Rs 2,506 has been received during the year.

Q.CFS.SM.306:

From the following Balance Sheet & information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 20X1:

Balance Sheet

	31stMarch, 20X1	31stMarch, 20X0
Liabilities		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference Share Capital	–	2,00,000
Capital Redemption Reserve	1,00,000	–
Capital Reserve	1,00,000	–
General Reserve	1,00,000	2,50,000
Profit and Loss Account	70,000	50,000
9% Debentures	2,00,000	–
Trade payables	1,15,000	1,10,000
Liabilities for Expenses	30,000	20,000
Provision for Taxation	95,000	60,000
Dividend payable	90,000	60,000
	15,00,000	12,50,000
	31st March,20X1	31st March,20X0
Assets		
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
Trade receivables	2,50,000	2,25,000
Cash and Bank	65,000	90,000
Voluntary Separation Payments	1,25,000	65,000
	15,00,000	12,50,000

Additional Information:

- A piece of land has been sold out for Rs 1,50,000 (Cost – Rs 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.
- On 1st April, 20X0 a plant was sold for Rs 90,000 (Original Cost – Rs 70,000 and W.D.V. – Rs 50,000) and Debentures worth Rs1 lakh was issued at par as part consideration for plant of Rs4.5 lakhs acquired.
- Part of the investments (Cost – Rs 50,000) was sold for Rs 70,000.
- Pre-acquisition dividend received Rs 5,000 was adjusted against cost of investment.



- (v) Directors have declared 15% dividend for the current year.
 (vi) Voluntary separation cost of Rs 50,000 was adjusted against General Reserve.
 (vii) Income-tax liability for the current year was estimated at Rs 1,35,000.
 Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

SOLUTION

Cash Flow Statement of Ryan Limited
For the year ended 31st March, 20X1

Particulars	Rs	
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before taxation (W.N.1)	2,45,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.3)	(20,000)	
Interest on debentures (W.N.4)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Trade payables	5,000	
Increase in accrued liabilities	10,000	
Extraordinary items	(1,10,000)	
Income taxes paid (W.N.8)	(1,00,000)	
Net cash generated from operating activities		1,13,000
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	
Pre-acquisition dividend received (W.N.4)	5,000	
Net cash used in investing activities		(60,000)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(60,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(78,000)
Net decrease in cash and cash equivalents		(25,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		65,000

Working Notes:

1. Net Profit before taxation

Particulars	Rs
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.20X0	(50,000)
	20,000



Provision for taxation	1,35,000
Dividend payable	90,000
Net Profit before taxation	2,75,000

2. Land and Building Account

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

3. Plant and Machinery Account

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

4. Investments Account

Particulars	Rs	Particulars	Rs
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend (Pre acquisition)	5,000
To Bank (Balancing figure)	25,000	To Balance C/d	50,000
	125,000		125,000

5. Capital Reserve Account

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

6. General Reserve Account

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

7. Dividend payable Account

Particulars	Rs	Particulars	Rs
To Bank (Balancing figure)	1,50,000	By Balance b/d	60,000
To Balance c/d	-	By Profit & loss account	90,000
	1,50,000		1,50,000

8. Provision for Taxation Account

Particulars	Rs	Particulars	Rs
To Bank (Balancing figure)	1,00,000	By balance b/d	60,000
To Balance c/d	95,000	By Profit & loss account	1,35,000
	1,95,000		1,95,000

9. Other Current Assets Account

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

Q.CFS.RMP.307: (RTP Nov19) (Similar to Q306)

From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2019.

**Balance Sheets**

	Particulars	Note	31.03.2019 (Rs.)	31.03.2018 (Rs.)
I	EQUITY AND LIABILITIES			
	(1) Shareholder's Funds			
	(a) Share Capital	1	3,50,000	3,00,000
	(b) Reserves and Surplus	2	82,000	38,000
	(2) Non-Current Liabilities			
	(3) Current Liabilities			
	(a) Trade Payables		65,000	44,000
	(b) Other Current Liabilities	3	37,000	27,000
	(c) Short term Provisions (provision for tax)	4	32,000	28,000
	Total		5,66,000	4,37,000
	ASSETS			
	(1) Non-current Assets			
	(a) Tangible Assets		2,66,000	1,90,000
	(b) Intangible Assets (Goodwill)		47,000	60,000
II	Non-Current Investments		35,000	10,000
	(2) Current Assets			
	(a) Inventories		78,000	85,000
	(b) Trade Receivables		1,08,000	75,000
	(c) Cash & Cash Equivalents		32,000	17,000
	Total		5,66,000	4,37,000

Note 1: Share Capital

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	<u>1,00,000</u>	<u>1,50,000</u>
Total	3,50,000	3,00,000

Note 2: Reserves and Surplus

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000
Capital Reserve	25,000	
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31.03.2019(Rs.)	31.03.2018 (Rs.)
Dividend declared	37,000	27,000

Note 4: Tangible Assets

Particulars	31.03.2019 (Rs.)	31.03.2018 (Rs.)
Land & Building	75,000	1,00,000



Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

- (i) Rs.18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.
- (ii) A piece of land has been sold out for Rs. 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.
- (iii) A plant was sold for Rs. 12,000 WDV being Rs. 15,000 on the date of sale (after charging depreciation).
- (iv) Dividend received amounted to Rs. 2,100 which included pre-acquisition dividend of Rs. 600.
- (v) An interim dividend of Rs. 10,000 including Dividend Distribution Tax has been paid.
- (vi) Non-current investments given in the balance sheet represents investment in shares of other companies.
- (vii) Amount of provision for tax existing on 31.3.2018 was paid during the year 2018-19.

SOLUTION**Cash flow Statement for the year ending 31st March, 2019**

	Particulars	Rs.	Rs.
I	Cash Flow from Operating Activities		
A.	Closing balance as per Profit and Loss Account		27,000
	Less: Opening balance as per Profit and Loss Account		(18,000)
	Add: Dividend declared during the year		37,000
	Add: Interim dividend paid during the year		10,000
	Add: Transfer to reserve		10,000
	Add: Provision for Tax		32,000
B.	Net profit before taxation and extra-ordinary item		98,000
C.	Add: Items to be added		
	Depreciation	18,000	
	Loss on sale of Plant	3,000	
	Goodwill written off	13,000	34,000
D.	Less: Dividend Income		(1,500)
E.	Operating profit before working capital changes [B + C - D]		1,30,500
F.	Add: Decrease in Current Assets and Increase in Current Liabilities		
	Decrease in Inventories	7,000	
	Increase in Trade Payables	21,000	28,000
G.	Less: Increase in Trade Receivables		(33,000)
H.	Cash generated from operations (E+F-G)		1,25,500
I.	Less: Income taxes paid		(28,000)
J.	Net Cash from (used in) operating activities		97,500
II.	Cash Flows from investing activities:		
	Purchase of Plant		(1,34,000)
	Sale of Land		50,000
	Sale of plant		12,000
	Purchase of investments		(25,600)
	Dividend Received		2,100

		Net cash used in investing activities		(95,500)
III.		Cash Flows from Financing Activities:		
		Proceeds from issue of equity share capital		1,00,000
		Redemption of preference shares		(50,000)
		Interim Dividend (inclusive of DDT) paid		(10,000)
		Final dividend (inclusive of DDT) paid		(27,000)
		Net cash from financing activities		13,000
IV.		Net increase in cash and cash equivalents (I+II+III)		15,000
V.		Cash and cash equivalents at beginning of period		17,000
VI.		Cash and cash equivalents at end of period (IV+V)		32,000

Land and Building Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale / revaluation)	25,000	By Balance c/d	75,000
	1,25,000		1,25,000

Plant and Machinery Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	90,000	By Depreciation A/c	18,000
To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
		By Balance c/d	1,91,000
	2,24,000		2,24,000

Investments Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Bank A/c (Div. received)	600
To bank A/c (Purchase)	25,600	By Balance c/d	35,000
	35,600		35,600

Q.CFS.SM.308:

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



		Notes	31 st March, 20X0 (Rs.)	31 st March, 20X1 (Rs.)
	Equity and liabilities			
1	Shareholders' funds			
	A Share capital	1	16,00,000	18,80,000
	B Reserves and Surplus	2	8,40,000	11,00,000
2	Non-current liabilities			
	A Long term borrowings	3	4,00,000	2,80,000
3	Current liabilities			
	A Other current liabilities	4	6,00,000	5,20,000
	B Short term provision (Provision for tax)		3,60,000	3,40,000
	Total		38,00,000	41,20,000



		Assets			
1		non-current assets			
	A	Property, plant and Equipment	5	22,80,000	26,40,000
	B	Non-Current investment		4,00,000	3,20,000
2		Current assets			
	A	Cash and Cash equivalents		10,000	10,000
	B	Inventory		2,16,000	3,00,000
	C	Other current assets		8,94,000	8,50,000
		Total		38,00,000	41,20,000

Notes to accounts

No.	Particular	31 st March, 20X0	31 st March, 20X1
1	Share capital		
	Equity share capital	12,00,000	16,00,000
	10% Preference share capital	4,00,000	2,80,000
	Total	16,00,000	18,80,000
2	Reserves and Surplus		
	General reserve	6,00,000	7,60,000
	Profit and Loss account	2,40,000	3,40,000
	Total	8,40,000	11,00,000
3	Long term borrowings		
	9% Debentures	4,00,000	2,80,000
	Total	4,00,000	2,80,000
4	Other current liabilities		
	Dividend payable	1,20,000	-
	Current Liabilities	4,80,000	5,20,000
	Total	6,00,000	5,20,000
5	Property, plant and equipment		
	Property, plant and equipment	32,00,000	38,00,000
	Less: Depreciation	(9,20,000)	(11,60,000)
	Net carrying value	22,80,000	26,40,000

Additional information:

- The company sold one fixed asset for Rs 1,00,000, the cost of which was Rs 2,00,000 and the depreciation provided on it was Rs 80,000.
- The company also decided to write off another fixed asset costing Rs 56,000 on which depreciation amounting to Rs 40,000 has been provided.
- Depreciation on fixed assets provided Rs 3,60,000.
- Company sold some investment at a profit of Rs 40,000.
- Debentures and preference share capital redeemed at 5% premium. Debentures were redeemed at the year end.
- 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 31.3.20X0 was Rs 2,16,000. The inventory on 31.3.20X1 was correctly valued at Rs 3,00,000.

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

SOLUTION**New Light Ltd.****Cash Flow Statement for the year ended 31st March, 20X1**

A. Cash Flow from operating activities	Rs.
Profit after appropriation	
Increase in profit and loss A/c after inventory adjustment [Rs. 3,40,000 – (Rs. 2,40,000 + Rs. 24,000)]	76,000
Transfer to general reserve	1,60,000



Dividend payable	1,60,000
Provision for tax	3,40,000
Net profit before taxation and extraordinary Item	5,76,000
Adjustments for:	
Depreciation	3,60,000
Loss on sale of fixed assets	20,000
Decrease in value of fixed assets	16,000
Profit on sale of investment	(40,000)
Premium on redemption of preference share capital	6,000
Interest on debentures	36,000
Premium on redemption of debentures	6,000
Operating profit before working capital changes	9,80,000
Increase in current liabilities (Rs. 5,20,000 – Rs. 4,80,000)	40,000
Increase in other current assets [Rs. 11,50,000 – (Rs. 11,10,000 + Rs. 24,000)]	(16,000)
Cash generated from operations	10,04,000
Income taxes paid	(3,60,000)
Net Cash generated from operating activities	6,44,000
B. CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of fixed assets (W.N.3)	(8,56,000)
Proceeds from sale of fixed assets (W.N.3)	1,00,000
Proceeds from sale of investments (W.N.2)	1,20,000
Net Cash from investing activities	(6,36,000)
C. CASH FLOW FROM FINANCING ACTIVITIES	
Proceeds from issuance of share capital	4,00,000
Redemption of preference share capital (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)
Redemption of debentures (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)
Dividend paid	(1,20,000)
Interest on debentures	(36,000)
Net Cash from financing activities	(8,000)
Net increase/decrease in cash and cash equivalent during the year	Nil
Cash and cash equivalent at the beginning of the year	10,000
Cash and cash equivalent at the end of the year	10,000

Working Notes:

1. Revaluation of inventory will increase opening inventory by Rs. 24,000. $2,16,000/90 \times 100 = \text{Rs. } 24,000$

Therefore, opening balance of other current assets would be as follows:

Rs. 11,10,000 + Rs. 24,000 = Rs. 11,34,000

Due to under valuation of inventory, the opening balance of profit and loss account be increased by Rs. 24,000.

The opening balance of profit and loss account after revaluation of inventory will be Rs. 2,40,000 + Rs. 24,000 = Rs. 2,64,000

2. Investment Account

Particulars	Rs	Particulars	Rs
To Balance b/d	4,00,000	By Bank A/c	1,20,000
To Capital reserve A/c (Profit on sale of investment)	40,000	(balancing figure being investment sold)	
		By Balance c/d	3,20,000
	4,40,000		4,40,000

3. Fixed Assets Account

Particulars	Rs	Particulars	Rs
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000
To Bank A/c (Balancing figure being assets purchased)	8,56,000	By Accumulated depreciation A/c	80,000
		By Profit and loss A/c (loss on sale of assets)	20,000
		By Accumulated depreciation A/c	40000
		By Profit and loss A/c (assets written off)	16000
		By Balance c/d	38,00,000
	40,56,000		40,56,000

4. Accumulated Depreciation Account

Particulars	Rs	Particulars	Rs
To Fixed assets A/c	80,000	By Balance b/d	9,20,000
To Fixed assets A/c	40,000	By Profit and loss A/c (depreciation for the period)	3,60,000
To Balance c/d	11,60,000		
	12,80,000		12,80,000

ICAI's View on Preference Dividend: Preference Dividend is not declared on Balance Sheet date because it is not shown as payable on Closing Balance sheet. Hence, if not declared from P&L then must not be paid and to be ignored.

Alternate View: If it is cumulative Preference Share Capital, dividend must have been declared & already paid on 31/3

(a) Added to CFOA since declared out of P&L.

(b) Deduct from Financing Activity since Paid in cash.

Q.CFS.SM.309:

ABC Ltd. gives you the following information. You are required to prepare Cash Flow Statement by using indirect methods as per AS 3 for the year ended 31.03.20X1:

		Notes	31 st March, 20X0 (Rs.)	31 st March, 20X1 (Rs.)
	Equity and liabilities			
1	Shareholders' funds			
A	Share capital		50,00,000	50,00,000
B	Reserves and Surplus		26,50,000	36,90,000
2	Non-current liabilities			
A	Long term borrowings	1	-	9,00,000
3	Current liabilities			
A	Short term borrowings (Bank loan)		1,50,000	3,00,000
B	Trade payable		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 investment		11,80,000	15,00,000
B	Inventory		20,10,000	19,20,000
C	Trade receivable	4	22,40,000	26,40,000
D	Cash and Cash equivalents		15,20,000	15,20,000

E	Other current assets (prepaid expenses)	90,000	1,20,000
	Total	91,60,000	1,09,80,000

Notes to accounts

No.	Particular	31 st March, 20X0	31 st March, 20X1
1	Long term borrowings		
	9% Debentures (issued at the end of year)	-	9,00,000
	Total	-	9,00,000
2	Other current liabilities		
	Dividend payable	1,50,000	-
	Liabilities for expenses	3,30,000	2,70,000
	Total	4,80,000	2,70,000
3	Property, plant and equipment		
	Plant and equipment	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 Rs 1,80,000 is Rs 10,40,000.
- (ii) Trade receivables of Rs 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

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

CASH FLOWS FROM OPERATING ACTIVITIES	Rs.
Net Profit	10,40,000
Add: Adjustment for Depreciation (Rs. 7,90,000 – Rs. 6,10,000)	1,80,000
Increase in Provision for Doubtful Debts (Rs. 4,20,000 – Rs. 1,50,000)	2,70,000
Operating Profit Before Working Capital Changes	14,90,000
Add: Decrease in Inventories (Rs. 20,10,000 – Rs. 19,20,000)	90,000
	15,80,000
Less: Increase in Current Assets	
Trade Receivables (Rs. 30,60,000 – Rs. 23,90,000)	6,70,000
Prepaid Expenses (Rs. 1,20,000 – Rs. 90,000)	30,000
Decrease in Current Liabilities:	
Trade Payables (Rs. 8,80,000 – Rs. 8,20,000)	60,000
Expenses Outstanding (Rs. 3,30,000 – Rs. 2,70,000)	60,000
	(8,20,000)
Net Cash from Operating Activities	7,60,000
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment in Current Investments	(3,20,000)
Purchase of Plant & Equipment (Rs. 40,70,000 – Rs. 27,30,000)	(13,40,000)
Net Cash Used in Investing Activities	(16,60,000)
CASH FLOWS FROM FINANCING ACTIVITIES	
Bank Loan Raised (Rs. 3,00,000 – Rs. 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 (Rs. 15,20,000 + Rs. 11,80,000)	15,20,000
Cash and Cash Equivalents as on 31.3.20x1 (Rs. 18,20,000 + Rs. 15,00,000)	15,20,000

Note:

1. Bad debts amounting Rs 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.
2. Current investments (i.e., Marketable securities) may not be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

Q.CFS.RMP.310: (EXAM Nov'20; MTP Nov'21)

The following figures have been extracted from the books of Manan Ltd. for the year ended 31.03.2020. 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 Rs. 30 Lakhs
 - (a) Depreciation on Property, Plant and Equipment Rs. 7.5 Lakhs
 - (b) Discount on issue of debentures written off Rs. 45,000
 - (c) Interest on debentures paid Rs. 5,25,000
 - (d) Book value of investments Rs. 4.50 Lakhs (Sale of investment for Rs. 4,80,000)
 - (e) Interest received on investments Rs. 90,000
- (ii) Compensation received Rs. 1,35,000 by the company in a suit filed
- (iii) Income tax paid during the year Rs. 15,75,000
- (iv) 22,500, 10% preference shares Rs. 100 each were redeemed on 02-04-2019 at a premium of 5%
- (v) Further, the company issued 75,000 equity shares at Rs. 10 each at a premium of 20% on 30.03.2020 (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 2018-19 Rs. 7.50 Lakhs (including dividend distribution tax) and interim dividend paid Rs. 2.5 Lakhs for the year 2019-20.
- (viii) Land was purchased on 02.04.2019 for Rs. 3,00,000 for which, the company issued 22,000 Equity Shares at Rs. 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
	Rs.	Rs.
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

SOLUTION

Manan Ltd. Cash Flow Statement
For the year ended 31st March, 2020

	Rs.	Rs.
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before income tax and extra ordinary items:		30,00,000
Adjustments for:	7,50,000	
Depreciation on Property, plant and equipment		
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	(30,000)	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	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid		(15,75,000)
Cash flow from ordinary items		24,66,000
Cash flow from extra ordinary 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)	(36,000)	
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)	(10,00,000)	
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

Q.CFS.RMP.311: (EXAM Jan21) (Similar to Q310)

The following information was extracted from the books of S Ltd. for the year ended 31.03.2020.



- (1) Net profit before taking into account income tax and after taking into account the following items was Rs. 30 Lakhs
- (a) Depreciation on Property, Plant and Equipment Rs. 7,00,000
 - (b) Discount on issue of debentures written off Rs. 45,000
 - (c) Interest on debentures paid Rs. 4,35,000
 - (d) Investment of Book value Rs. 3,50,000 sold for 3,75,000



- (e) Interest received on investments Rs.70,000
- (2) Income tax paid during the year Rs.12,80,000
- (3) The company issued 60,000 equity shares of Rs. 10 each at a premium of 20% on 10.04.2019
- (4) 20,000 9% Preference Shares of Rs. 100 were redeemed on 31st March 2020 at a premium of 5%
- (5) Dividend paid during the year amounted to Rs. 11,00,000 (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 Rs. 8 Lakhs but the vendor took over the old plant at a value of Rs. 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 Rs. 13,50,000
- (8) Current assets and current liabilities in the beginning and at the end of the years 2019-2020 were as:

	As on 01.04.2019	As on 31.03.2020
	Rs.	Rs.
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash in Hand	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.

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	1,64,000	
{14,76,000 less 16,40,000(14,76,000/90X100)}		
Operating profit before working capital change		12,49,000
Changes in working capital		42,49,000
(Excluding cash and bank balance):		
Less: Increase in inventory	(2,90,000)	
{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s 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

SERIES 400 **MISC. QUESTIONS**

Q.CFS.SM.401:

Given below is the Statement of Profit and Loss of ABC Ltd. and relevant Balance Sheet information:

Extract of Balance sheet

		Particular	Notes	31.3.20X1 (Rs. In lakhs)	31.3.20X0 (Rs. In lakhs)
		Equity and Liabilities			
1		Current liabilities			
	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 Receivable		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	Rs. In lakhs
I	Revenue from operations		4,150
II	Other income	4	100
III	Total income (I + II)		4250
	Expenses:		
	Purchase on Stock-in-Trade		2,400
	Change in inventories of finished goods		(20)
	Employee benefits expense		800
	Depreciation expense		100
	Finance cost	5	60
	Other expenses		200

IV	Total expenses		3,540
V	Profit before tax (III -IV)		710
VI	Tax expense:		
	Current tax		200
VII	Profit for the year from continuing operations		510

Appropriations

Balance of profit and loss account brought forward	50
Transfer to general reserve	200
Dividend paid	330

Notes to accounts:

		20X1 (Rs. In lakhs)	20X0 (Rs. In lakhs)
1	Short term provision		
	Provision for tax	200	180
2	Other current liabilities		
	Outstanding wages	50	40
	Outstanding expenses	20	10
	Total	70	50
3	Other current assets:		
	Advance tax	195	180
4	Other income:		
	Interest and dividend	100	
5	Finance cost:		
	Interest	60	

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

SOLUTION**By direct method****Computation of Cash Flow from Operating Activities**

Particulars	Rs in lakhs	Rs in lakhs
Cash Receipts:		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing Trade receivables (A)	4,150+250-400	4,000
Cash payments:		
Cash purchases & payment to Trade payables Purchases + Opening Trade payables – Closing Trade payables	2,400+230-250	2,380
Wages and salaries paid	800+40-50	790
Cash expenses	200+10-20	190
Taxes paid – Advance tax		195
(B)		3,555
Cash flow from operating activities (A – B)		445

By Indirect Method**Computation of Cash Flow from Operating Activities**

	Rs in lakhs	Rs in lakhs
By Indirect method		
Profit before tax		710
Add: Non-cash items: Depreciation		100
Add: Interest: Financing cash outflow		60
Less: Interest and Dividend: Investment cash inflow		(100)
Less: Tax paid		(195)



Working capital adjustments		
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

Q.CFS.RMP.402: (MTP Nov 20)

What do you mean by the term “cash and cash equivalent” as per AS 3? From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019.



Particulars	Amount (Rs.)
Cash balance with Bank	10,000
Fixed Deposit created on 01-11-2018 and maturing on 15-07-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund made on 01-03-2019 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India (Conversion Rate: on the day of deposit Rs.69/USD; Rs.70/USD as on 31-03-2019)	\$ 1,000
Debentures purchased of Rs.10 lacs of A Ltd., which are redeemable on 31 st October, 2019	90,000
Shares of Alpha Ltd. purchased on 1 st January, 2019	60,000

SOLUTION

As per AS 3, Cash and cash equivalents consists of:

- Cash in hand and deposits repayable on demand with any bank or other financial institutions and
- Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk of change in value. A short-term investment is one, which is due for maturity within three months from the date of acquisition. Investments in shares are not normally taken as cash equivalent, because of uncertainties associated with them as to realizable value.

Computation of Cash and Cash Equivalents as on 31st March, 2019

	Rs.
Cash balance with bank	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19	1,00,000
Bank balance in foreign currency account (\$1,000 x Rs.70)	70,000
	1,80,000

Note: Fixed deposit, Shares and Debentures will not be considered as cash and cash equivalents.

SECTION B – HOMEWORK QUESTIONS

(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home)

**SEREIS 100
BASICS****Q.CFS.SM.103:**

Classify the following activities as (a) Operating activities, (b) Investing activities (c) Financing activities (d) Cash equivalents with reference to AS 3 (Revised).

- (a) Brokerage paid on purchase of investments
- (b) Underwriting commission paid
- (c) Trading commission received
- (d) Proceeds from sale of investment
- (e) Purchase of goodwill
- (f) Redemption of preference shares
- (g) Rent received from property held as investment
- (h) Interest paid on long-term borrowings
- (i) Marketable securities (having risk of change in value)
- (j) Refund of income tax received

SOLUTION**Classification of activities with reference to AS 3**

a.	Brokerage paid on purchased of investments	Investing Activities
b.	Underwriting Commission paid	Financing Activities
c.	Trading Commission received	Operating Activities
d.	Proceeds from sale of investment	Investing Activities
e.	Purchase of goodwill	Investing Activities
f.	Redemption of Preference shares	Financing Activities
g.	Rent received from property held as Investment	Investing Activities
h.	Interest paid on long term borrowings	Financing Activities
i.	Marketable securities	Not a Cash equivalent
j.	Refund of Income tax received	Operating activities

Q.CFS.SM.104:

Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.



- a) Loans and Advances given to the following and interest earned on them:
 1. To suppliers
 2. To employees
 3. To its subsidiary companies
- b) Investment made in subsidiary Smart Ltd. and dividend received
- c) Dividend paid for the year
- d) TDS on interest income earned on investments made
- e) TDS on interest earned on advance given to suppliers
- f) Insurance claim received against loss of fixed asset by fire Discuss in the context of AS 3 Cash Flow Statement

SOLUTION**(i) Loans and advances given and interest earned**

1. to suppliers Operating Cash flow



2. to employees Operating Cash flow
 3. to its subsidiary companies Investing Cash flow

(ii) Investing made in subsidiary company and dividend received

Investing Cash flow

(iii) Dividend paid for the year

Financing Cash Outflow

(iv) TDS on interest income earned on investments made

Not a Cash Item

(v) TDS on interest earned on advance given to suppliers

Not a Cash Item

(vi) Insurance claim received of amount loss of fixed asset by fire

Extraordinary item to be shown under a separate heading as 'Cash inflow from investing activities.'

SERIES 200
DIRECT METHOD

Q.CFS.SM.205:

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

	Rs 000		Rs 000
Balance on 1.4.20X0	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.20X1	150
	3,250		3,250

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

Particulars	Rs '000	Rs '000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
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
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		



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 beginning of the period		50
Cash at end of the period		150

Q.CFS.RMP.206: (RTP Nov'21) (Similar to Q204)

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

- (i) Total sales for the year were Rs. 597 crores out of which cash sales amounted to Rs. 393 crores.
- (ii) Receipts from credit customers during the year, totalled Rs. 201 crores.
- (iii) Purchases for the year amounted to Rs. 330 crores out of which credit purchases were 80%. Balance in creditors as on

1.4.2020	Rs. 126 crores
31.3.2021	Rs. 138 crores
- (iv) Suppliers of other consumables and services were paid Rs. 28.5 crores in cash.
- (v) Employees of the enterprises were paid 30 crores in cash.
- (vi) Fully paid preference shares of the face value of Rs. 48 crores were redeemed. Equity shares of the face value of Rs. 30 crores were allotted as fully paid up at premium of 20%.
- (vii) Debentures of Rs. 30 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
- (viii) Rs. 39 crores were paid by way of income tax.
- (ix) A new machinery costing Rs. 15 was purchased.
- (x) Investment costing Rs. 27 crores were sold at a loss of Rs. 3 crores.
- (xi) Dividends totalling Rs. 22.5 crores were also paid.
- (xii) Debenture interest amounting Rs. 3 crore was paid.
- (xiii) On 31st March 2020, Balance with Bank and Cash on hand totalled Rs. 3 crores.

SOLUTION:

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

	(Rs. in crores)	(Rs. in crores)
Cash flow from operating activities		
Cash sales	393	
Cash collected from credit customers	201	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(376.5)	
Cash from operations	217.5	
Less: Income tax paid	(39)	
Net cash generated from operating activities		178.5
Cash flow from investing activities		
Payment for purchase of Machine	(15)	
Proceeds from sale of investments	24	
Net cash used in investing activities		9
Cash flow from financing activities		
Redemption of Preference shares	(48)	
Proceeds from issue of Equity shares	36	



Debenture interest paid	(3)	
Dividend Paid	(22.5)	
Net cash used in financing activities		(37.5)
Net increase in cash and cash equivalents		150
Add: Cash and cash equivalents as on 1.04.2020		3
Cash and cash equivalents as on 31.3.2021		153

Working Note:**Calculation of cash paid to suppliers of goods and services and to employees**

	(Rs. in crores)
Opening Balance in creditors Account	126
Add: Purchases (330x .8)	264
Total	390
Less: Closing balance in Creditors Account	138
Cash paid to suppliers of goods	252
Add: Cash purchases (330x .2)	66
Total cash paid for purchases to suppliers (a)	318
Add: Cash paid to suppliers of other consumables and services (b)	28.5
Add: Payment to employees (c)	30
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	376.5

Q.CFS.RMP.207: (MTP May20) (Similar to Q201)

Prepare Cash Flow Statement of Tom & Jerry Ltd. for the year ended 31st March, 2020, in accordance with AS-3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	Rs. in '000	Rs. in '000
Balance as on 01.04.2019		210
Receipts from Customers		16,596
Sale of Investments (Cost Rs. 90,000)		102
Issue of Shares		1,800
Sale of Fixed Assets		768
		19,476
Payment to Suppliers	12,204	
Purchase of Investments	78	
Purchase of Fixed Assets	1,380	
Wages & Salaries	414	
Selling & Administration Expenses	690	
Payment of Income Tax	1,458	
Payment of Dividends	480	
Repayment of Bank Loan	1,500	
Interest paid on Bank Loan	300	(18,504)
Balance as on 31.03.2020		972

SOLUTION:**Cash Flow Statement of Tom & Jerry Ltd. For the year ended 31st March, 2020**

Cash flows from operating activities	(Rs. '000)
Cash receipts from customers	16,596
Cash payments to suppliers	(12,204)



Cash paid to employees	(414)	
Other cash payments (for Selling & Administrative expenses)	(690)	
Cash generated from operations	3,288	
Income taxes paid	(1,458)	
Net cash from operating activities		1,830
Cash flows from investing activities		
Payments for purchase of fixed asset	(1,380)	
Proceeds from sale of fixed assets	768	
Purchase of investments	(78)	
Sale of investments	102	
Net cash used in investing activities		(588)
Cash flows from financing activities		
Proceeds from issue of share capital	1,800	
Bank loan repaid	(1,500)	
Interest paid on bank loan	(300)	
Dividend paid	(480)	
Net cash used in financing activities		(480)
Net increase in cash and cash equivalents		762
Cash and cash equivalents at beginning of period		210
Cash and cash equivalents at end of period		972

Q.CFS.RMP.208: (EXAM May'19)

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



- (1) Gross Profit Ratio was 25% for the year, which amounts to Rs. 3,75,000.
 - (2) Company sold goods for cash only.
 - (3) Opening inventory was lesser than closing inventory by Rs.25,000.
 - (4) Wages paid during the year Rs.5,55,000.
 - (5) Office expenses paid during the year Rs.35,000.
 - (6) Selling expenses paid during the year Rs.15,000.
 - (7) Dividend paid during the year Rs.40,000 (including dividend distribution tax).
 - (8) Bank Loan repaid during the year Rs.2,05,000 (included interest Rs.5,000)
 - (9) Trade Payables on 31st March, 2018 were Rs.50,000 and on 31st March, 2019 were Rs.35,000.
 - (10) Amount paid to Trade payables during the year Rs.6,10,000
 - (11) Income Tax paid during the year amounts to Rs.55,000
(Provision for taxation as on 31st March, 2019 Rs.30,000)·
 - (12) Investments of Rs.8,20,000 sold during the year at a profit of Rs.20,000.
 - (13) Depreciation on furniture amounts to Rs.40,000.
 - (14) Depreciation on other tangible assets amounts to Rs.20,000.
 - (15) Plant and Machinery purchased on 15th November, 2018 for Rs.3,50,000.
 - (16) On 31st March, 2019 Rs.2,00,000, 7% Debentures were issued at face value in an exchange for a plant.
 - (17) Cash and Cash equivalents on 31st March, 2018 Rs.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.

SOLUTION

PQR Ltd.
Cash Flow Statement for the year ended 31st March, 2019
(Using direct method)

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

(ii) Cash Flow from Operating Activities by indirect method

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

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

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



SERIES 300 INDIRECT METHOD

Q.CFS.RMP.312: (RTP May'24)

From the following particulars calculate cash flows from Operating activities:

Particulars	₹
Retained earning	17,000
Depreciation	4,000
Loss on Sale of Machinery	3,000
Provision for tax	7,000
Interim Dividend paid during the year	10,000
Dividend paid during the year	8,000
Premium payable on redeemable Preference Shares	2,000
Profit on sale of investment	10,000
Refund of tax	1,000

Additional Information:

	31. 3. 22 ₹	31. 3. 23 ₹
Trade Receivable	10,000	12,000
Trade Payable	7,000	15,000
Provision for Tax	4,000	7,000
Prepaid Expenses	2,000	1,000
Outstanding Expenses	1,400	1,000

SOLUTION**Calculation of Cash Flow from Operating Activities**

Particulars	Amount ₹
Retained earnings	17,000
Add: Depreciation	4,000
Add: Loss on sale of Machinery	3,000
Add: Premium Payable on redeemable Preference Shares	2,000
Add: Dividend paid	8,000
Add: Interim dividend paid during the year	10,000
Add: provision for tax made during the current year	7,000
Less: Refund of tax	(1,000)
Less: Profit on Sale of Investment	(10,000)
Operating Profit before Working Capital Changes	40,000
Add: Decrease in Prepaid Expenses	1,000
Less: Increase in Trade receivable	(2,000)
Add: Increase in Trade Payable	8,000
Less: Decrease in Outstanding Expenses	(400)
Cash generated from (Net of refund) operation	46,600
Less: Income tax paid (4,000 – 1,000)	<u>(3,000)</u>
Net Cash flow operating activities	<u>43,600</u>

Q.CFS.SM.313:

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

**Balance Sheets of Mr. Zen**

Liabilities	As on 1.4.20X0	As on 1.4.20X1
	Rs	Rs
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	<u>3,20,000</u>	<u>4,00,000</u>



	18,40,000	19,76,000
Assets		
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
	18,40,000	19,76,000

Additional information:

A machine costing Rs 80,000 (accumulated depreciation there on Rs 24,000) was sold for Rs 40,000. The provision for depreciation on 1.4.20X0 was Rs 2,00,000 and 31.3.20X1 was Rs 3,20,000. The net profit for the year ended on 31.3.20X1 was Rs 3,60,000.

SOLUTION

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

Particulars		Rs
(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)
(iii) CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of Mrs. Zen's Loan	(2,00,000)	
Drawings (W.N.3)	(1,36,000)	
Loan from Bank	80,000	
Net cash used in financing activities		(2,56,000)
Net decrease in cash		(24,000)
Opening balance as on 1.4.20X0		80,000
Cash balance as on 31.3.20X1		56,000

Working Notes:**1. Plant & Machinery A/c**

Particulars	Rs	Particulars	Rs
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash – Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c – Loss on Sale (80,000 – 64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		8,40,000

2. Provision for depreciation on Plant and Machinery A/c

Particulars	Rs	Particulars	Rs
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	3,44,000		3,44,000

3. To find out Mr. Zen's drawings:

Particulars	Rs
Opening Capital	10,00,000
Add: Net Profit	3,60,000
	13,60,000
Less: Closing Capital	(12,24,000)
Drawings	1,36,000

Q.CFS.SM.314:

From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:



		Particulars	Notes	31 st March, 20X1	31 st March, 20X0
		Equity and Liability			
1		Shareholders' funds			
	A	Share capital		10,00,000	8,00,000
	B	Reserves and Surplus	1	3,00,000	2,10,000
2		Non-current liabilities			
	A	Long term borrowings	2	2,00,000	-
3		Current liabilities			
	A	Trade payables		7,00,000	8,20,000
	B	Other current liabilities	3	-	1,00,000
	C	Short term provision (Provision for tax)		1,00,000	70,000
		Total		23,00,000	20,00,000
		Assets			
1		Non-current assets			
	A	Property, plant and Equipment	4	13,00,000	9,00,000
	B	Non-Current investments		1,00,000	-
2		Current assets			
	A	Inventories		4,00,000	2,00,000
	B	Trade receivables		5,00,000	7,00,000
	C	Cash and cash equivalents			2,00,000
		Total		23,00,000	20,00,000

Notes to accounts

No.	Particulars	31 st March, 20X1	31 st March, 20X0
1	Reserves and Surplus		
	Revenue reserve	2,00,000	1,50,000
	Profit and Loss account	1,00,000	60,000
	Total	3,00,000	2,10,000
2	Long term borrowings		
	Debentures (issued at end of year)	2,00,000	-
3	Other current liabilities		
	Dividend payable	-	1,00,000
4	Property, plant and equipment		
	Plant and machinery	7,00,000	5,00,000

Land and building	6,00,000	4,00,000
Net carrying value	13,00,000	9,00,000

- (i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.
(ii) At the year end, one old machine costing 50,000 (WDV 20,000) was sold for Rs 35,000. Purchase was also made at the year end.
(iii) Rs 50,000 was paid towards Income tax during the year.
(iv) Building under construction was not subject to any depreciation.
Prepare Cash flow Statement.

SOLUTION

**Grow More Ltd Cash Flow Statement
for the year ended 31st March, 20X1
Cash Flow from Operating Activities**

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

Cash Flow from Investing Activities

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

Cash Flow from Financing activities

Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash used in financing activities		3,00,000
Net increase in cash or cash equivalents		2,00,000
(-) Cash and Cash equivalents at the beginning of the year		2,00,000
Cash and Cash equivalents at the end of the year		NIL

Working Notes:**1. Provision for taxation account**

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



2. Plant and Machinery account

Particulars		Rs	particulars		Rs
To	Balance b/d	5,00,000	By	Depreciation	1,25,000
To	Profit and Loss A/c (profit on sale of machine)	15000	By	Cash (sale of machine)	35,000
To	Cash (Balancing figure)	3,45,000	By	Balance c/d	7,00,000
		8,60,000			8,60,000

Q.CFS.RMP.315: (RTP Nov'18, Nov'22)

The Balance Sheet of Max Ltd. for the year ending 31st March, 2022 and 31st March, 2021 were summarised as:

Particulars	Note No	2022 Rs.	2021 Rs.
Equity and Liabilities			
Shareholders' funds			
Equity share capital		1,20,000	1,00,000
Reserves and Surplus	1	9,000	8,000
Current Liabilities			
(i) Trade Payables		8,000	5,000
(ii) Short term provision	2	7,000	4,000
Assets		1,44,000	1,17,000
Non-current assets			
(i) PPE (at W.D.V)	3	78,000	58,000
(ii) Long Term Investments		32,000	28,000
Current Assets			
(i) Inventory		14,000	8,000
(ii) Trade Receivables		8,000	6,000
(iii) Cash & Bank		12,000	17,000
		1,44,000	1,17,000

Notes to accounts

		2022	2021
1 Reserves and Surplus			
Profit & Loss A/c		9,000	8,000
2 Short term provision			
provision for Income tax		7,000	4,000
3 PPE			
Building		19,000	20,000
Furniture & Fixture		34,000	22,000
Cars		25,000	16,000
		78,000	58,000

The Profit and Loss statement for the year ended 31st March, 2022 disclosed:

	Rs.
Profit before tax	8,000
Income Tax	(7,000)
Profit after tax	1,000

Further Information is available:

1. Depreciation on Building for the year Rs. 1,000
2. Depreciation on Furniture & Fixtures for the year Rs. 2,000



3. Depreciation on Cars for the year Rs. 5,000. One car was disposed during the year for Rs. 3,400 whose written down value was Rs. 2,000.
 4. Purchases investments for Rs. 6,000.
 5. Sold investments for Rs. 10,000, these investments cost Rs. 2,000.
- Prepare Cash Flow Statements for the year ended 31st March, 2022 as per AS-3 (revised) using indirect method.

SOLUTION**Max Ltd.****Cash Flow Statement for the year ended 31st March, 2018**

	Rs	Rs
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000 + 2,000 + 5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(4,000)	
Net cash generated from operating activities (A)		(2,400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Net cash from financing activities (C)		20,000
Net decrease in cash and cash equivalents (A + B + C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

Working Notes:**1. Calculation of Income taxes paid**

	Rs
Income tax expense for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (Rs)	Car (Rs)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	-	2,000
	36,000	32,000

Less: W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

Q.CFS.RMP.316: (RTP May'20)

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



- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs20 lakhs:
 - (a) Depreciation on Property, Plant & Equipment Rs. 5 lakhs.
 - (b) Discount on issue of Debentures written off Rs. 30,000.
 - (c) Interest on Debentures paid Rs. 3,50,000.
 - (d) Book value of investments Rs. 3 lakhs (Sale of Investments for Rs. 3,20,000).
 - (e) Interest received on investments Rs. 60,000.
- (ii) Income tax paid during the year Rs. 10,50,000.
- (iii) 15,000, 10% preference shares of Rs. 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of Rs. 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.
- (iv) Dividend paid for the year 2017-2018 Rs. 5 lakhs and interim dividend paid Rs. 3 lakhs for the year 2018-2019.
- (v) Land was purchased on 2.4.2018 for Rs. 2,40,000 for which the company issued 20,000 equity shares of Rs. 10 each at a premium of 20% to the land owner as consideration.
- (vi) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

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

- (vii) Compensation received Rs. 90,000 by the company in a suit filed.

SOLUTION**X Ltd.****Cash Flow Statement for the year ended 31st March, 2019**

	Rs	Rs
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)



Cash generated from operations		26,94,000
Income tax paid		<u>(10,50,000)</u>
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		<u>90,000</u>
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	<u>60,000</u>	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	<u>(8,00,000)</u>	
Net cash used in financing activities		<u>(22,75,000)</u>
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		<u>1,96,300</u>
Cash and cash equivalents as on 31.3.2019		<u>35,300</u>

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

Q.CFS.RMP.317: (RTP May'23)

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

Particulars	Note No.	31 st March, 2021 (₹)	31 st March, 2020 (₹)
(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 (Provision for taxation)		8,000	5,000
Total		7,53,000	3,90,000
(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000

Total		7,53,000	3,90,000
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Notes to Accounts

Particulars	31 st March, 2021 (₹)	31 st March, 2020 (₹)
1. Share capital		
(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	1,50,000	1,00,000
	5,60,000	3,00,000
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	(10,000)	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

1. Dividend paid during the year ₹ 10,000
2. Depreciation charges during the year ₹ 40,000.

SOLUTION:**Fox Ltd.****Cash Flow Statement for the year ended 31st March, 2021**

	₹	₹
Cash flows from operating activities		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
Cash used in operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in operating activities		(25,000)
Cash flows from investing activities		
Purchase of PPE	(2,10,000)	
Net cash used in investing activities		(2,10,000)
Cash flows from financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

*Provision for tax of last year considered to be paid in the current year.



Working Note:

	₹
Property, plant and equipment acquisitions	
W.D.V. at 31.3.2021	3,50,000
Add back:	
Depreciation for the year	40,000
	3,90,000
Less: W.D.V. at 31.12.2020	1,80,000
Acquisitions during 2020-2021	2,10,000

Q.CFS.RMP.318: (EXAM Dec'21)

Following are the extract from the balance sheet of ABC Ltd.

Liabilities	31.03.2020	31.03.2021
Equity share capital	25,00,000	35,60,000
10% preference share capital	7,00,000	6,00,000
Securities premium account	5,00,000	5,50,000
Profit & loss a/c	20,00,000	28,00,000



Equity share capital for the year ended 31st March, 2021 includes Rs. 60,000 of equity shares issued to Grey Ltd at par for supply of machinery of Rs. 60,000

Profit & loss account on 31st march, 2021 includes Rs. 50,000 of dividend received on equity shares invested in X Ltd.

Show how the related items will appear in the cash flow statement of ABC Ltd. as per AS-3 (Revised)

SOLUTION

The related items given in the question will appear in the Cash Flow Statement of ABC Limited for the year ended 31st March, 2021 as follows:

	Rs.	Rs.
Cash flows from operating activities		
Closing Balance as per Profit and Loss Account	28,00,000	
Less: Opening Balance as per Profit and Loss Account	(20,00,000)	
	8,00,000	
Less: Dividend received	50,000	
		7,50,000
Cash flows from investing activities		
Dividend received		50,000
Cash flows from financing activities		
Proceeds from issuance of share capital		
Equity shares issued for cash Rs. 10,00,000		
Proceeds from securities premium (Rs. 5,50,000 – 5,00,000) Rs. 50,000	10,50,000	
Less: Redemption of Preference shares (Rs. 7,00,000 – Rs. 6,00,000)	(1,00,000)	9,50,000

Note:

1. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the cash flow statement.
2. ABC Ltd. has been considered as a non-financial company in the given answer.

SERIES 400
MISC. QUESTIONS

Q.CFS.RMP.403: (MTP May'18)

Prepare Cash Flow from Investing Activities of Creative Furnishings Limited for the year ended 31-3-2017.



Particulars	Rs.
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(TDS of Rs. 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred Rs. 9,600)	84,000

SOLUTION

Cash Flow Statement from Investing Activities of Creative Furnishings Limited for the year ended 31-03-2017

Cash generated from investing activities	Rs.	Rs.
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	(4,85,000)	
Interest received on investments (gross value)	76,200	
TDS deducted on interest	(8,200)	
Sale of plant	74,400	
Cash used in investing activities (before extra-ordinary item)		(1,97,700)
Extraordinary claim received for loss of plant		49,600
Net cash used in investing activities (after extra-ordinary item)		(1,48,100)

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.

Q.CFS.RMP.404: (EXAM Nov'19) (MTP May'21)

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

Particulars	Amount (Rs)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000



Interest received on investment (TDS of Rs 8,200 was deducted on the above interest)	73,800
Purchased debentures of X Ltd., on. 1 st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred Rs 9,600)	90,000

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

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

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.
3. The investments made in debentures are for short-term; it will be treated as 'cash equivalent' and will not be considered as outflow in cash flow statement.

SECTION C – MASTER QUESTIONS

Question 1:

Master Problem on Cash Flow Statement (Prepare by CA. Jai Chawla) Covering Maximum Adjustments in Single Questions

Mr. Shubham provides us his Balance sheet as on 31/03/20X2 along with additional information:

		(₹ in Cr.)
EQUITY AND LIABILITIES	Opening Balances	Closing Balances
Equity Share Capital	50,00,000	69,00,000
8% pref. Sh. Capital	15,00,000	10,00,000
P&L Account	23,00,000	30,00,000
General Reserve	7,00,000	9,00,000
CRR	-	3,00,000
9% Bank Loan	70,00,000	76,00,000
Loan From Nidhi (Interest free)	9,00,000	-
Creditors	32,00,000	37,00,000
Bills Payable	5,00,000	6,00,000
Tax provision	17,00,000	21,50,000
O/s expenses	2,50,000	1,20,000
Dividend payable	5,50,000	70,000
	2,36,00,000	2,69,70,000

ASSETS		
Residential property	-	1,00,00,000
P&M (Gross Value)	12,00,000	15,00,000
(-) Provision For Dep	(3,50,000)	(4,75,000)
Investments	50,00,000	10,00,000
Loan to Mr. Jai	5,00,000	3,00,000
Goodwill	30,00,000	15,00,000
Trade Receivable	60,00,000	35,00,000
Inventory	40,00,000	50,00,000
Advance Tax	16,00,000	24,00,000
Prepaid Expenses	7,00,000	8,00,000
Advertisement Exp (Deferred)	13,00,000	10,00,000
Cash & Cash Equivalent	6,50,000	4,45,000
	2,36,00,000	2,69,70,000

Additional Information:-

- Grant received for Business purpose Rs.7,50,000 & Charged to P&L.
- Dividend received ₹ 6,00,000 out of which 1,50,000 is Pre-Acquisition.



- 3) Preference Shares were redeemed at 10% premium & Premium is w/f in P&L.
- 4) Tax paid during the year 30,00,000.
- 5) Interim Dividend paid 4,00,000.
- 6) P&M of Org. Cost of 4,00,000 with Accumulated Depreciation of 2,50,000 was 37,500 sold at 25% Profit.
- 7) New P&M purchased, 60% payment in Cash & remaining in the form of Issue of ESC.
- 8) Depreciation on P&M is 3,75,000.
- 9) Opening Inventory is measured at Cost less 50%. Closing Inventory is measured at cost + 25%
- 10) Advertisement Expenditure of 5,00,000 W/off directly from GR.
- 11) Bad-debts during the year charged to Profit and Loss A/c 3,00,000.
- 12) Exchange Loss due to Remeasurement of creditors as per AS 11 - 1,00,000 transfer to P&L.
- 13) Other Incomes includes Income from Instagram & YouTube 2,50,000 (considered as Extraordinary)
- 14) Investments were sold at 5% Profit.
- 15) Other incomes includes total Interest Earned 2,00,000 on which TDS is deducted. TDS 20,000 is a part of Closing Prepaid Expense in Balance Sheet.
- 16) Loss due to theft = 15,000 cash (Extraordinary)
- 17) Tax Refund = 50,000

Prepare Statement of Cash Flows as per Indirect Method.

SOLUTION:

Statement of Cash Flows

1) Cash Flows from Operating Activities:

Particulars	Amount
Difference of P&L	7,00,000
(+) Transfer to GR	10,00,000
(+) Interim Dividend declared and Paid	4,00,000
(+) Final Dividend Declared in CY	7,00,000
(+) Premium on Redemption w/o in Profit and Loss A/c	5,000
Net Profit After Tax (NPAT)	28,50,000
(-) Stock adjustment	
Opening Stock adjustment	(40,00,000)
Closing Stock adjustment	(10,00,000)
(+) Tax provision	26,50,000
Net Profit Before Tax	5,00,000
(+/-) Adjustment for:-	
(+) Depreciation	3,75,000
(-) Gain on sale of P&M	(37,500)
(-) Advertisement Expenses Paid	(2,00,000)
(-) Gain on sale of Investment	(1,92,500)
(-) Post Acquisition Dividend Received	(4,50,000)
(+) Loss due to theft (extra-ordinary)	15,000
(+) Bad debts (Non-Cash)	3,00,000
(+) Ex. Loss on Creditors	1,00,000
(-) Insta & YT Income (Extra-ordinary)	(2,50,000)

(-) Interest on Investment Earned	(2,00,000)
(-) Tax Refund	(50,000)
(+) Interest on Bank Loan	6,84,000
(+) Amortisation of Goodwill	15,00,000
(+/-) Working Capital Adjustment	
(+) Creditors	4,00,000
(+) Bills Payable	1,00,000
(-) O/s Exp.	(1,30,000)
(+) Trade Receivable	2,00,000
(+) Inventory	40,00,000
(-) Prepaid exp.	(80,000)
Net Cash before Tax & Extra ordinary items	85,84,000
(-) Tax paid	(30,00,000)
(-) Loss due to theft	(15,000)
(+) Insta & YT	2,50,000
(+) Tax Refund	50,000
Net Cash generated from Operating Activity (a)	5,869,000

2) Cash Flow from Investing Activity:

Sale of P&M	1,87,500
(-) Payment for purchase for P&M	(4,20,000)
(+) Sale of Investments	4,042,500
(+) Dividend received	
Pre-acquisition	1,50,000
Post-acquisition	4,50,000
(+) Interest Collected	1,80,000
(-) Investment in Residential Property	(1,00,00,000)
(+) Loan repaid by Mr. Jai	2,00,000
Net Cash used in Investing Activity (b)	(52,10,000)

3) Cash Flow from Financing Activity:

(-) Interim Dividend Paid	(4,00,000)
(-) Final Dividend of PY Paid in CY	(5,50,000)
(-) Redemption of PSC	(5,50,000)
(+) Issue of ESC	16,20,000
(+) Bank Loan raised	6,00,000
(-) Interest on Bank Loan	(6,84,000)
(-) Loan Repaid to Nidhi	9,00,000
Net Cash used in Financing Activity (c)	86,4,000
Net cash outflow during the Year (a+b+c)	2,05,000
(+) Opening balance of Cash & CE	6,50,000
Closing balance of Cash & CE	4,45,000



Working Note - 1**Tax a/c**

To Balance b/d	16,00,000	By Balance b/d	17,00,000
To Bank (tax paid)	30,00,000	By P&L (balancing fig.)	26,50,000
To Balance c/f	21,50,000	By Balance c/f	24,00,000

Working Note - 2**Plant & Machine (Gross)**

To Balance b/d	12,00,000	By Provision for Depreciation	2,50,000
To P&L (Gain)	37,500	By Bank	1,87,500
To Bank (bal. fig.)	4,20,000		
To ESC (bal. fig.)	2,80,000	By Balance c/d	15,00,000

Provision for Depreciation

To P&M	2,50,000	By Balance b/d	3,50,000
To Balance c/d	4,75,000	By Depreciation	3,75,000

Working Note - 3

ESC Opening	50 lacs
ESC Closing	69 lacs
Issued during the year	19 lacs
(-) issued for P&M (Non Cash)	2.8 lacs
Issued against Cash (bal. fig.)	16.20 lacs

Working Note - 4**Advertisement Expense (Asset)**

To Balance b/d	13,00,000	BY GR	5,00,000
To Bank (bal. fig.)	2,00,000	By Balance c/d	10,00,000

WN-5**General Reserve**

To Advertisement Exp.	5,00,000	By Balance b/d	7,00,000
To CRR	3,00,000	By P&L (b/f)	10,00,000
To Balance c/d	9,00,000		

Working Note - 6**Investment A/c**

To Balance b/d	50,00,000	By Bank	1,50,000
To Gain (P&L)	192500	By Bank (bal. fig.)	40,42,500
		By Balance c/d	10,00,000



Working Note – 7

Trade Receivables	
Closing Balance as per B/s	35,00,000
Add: Bad-debts	3,00,000
Closing Trade Receivables before Bad-debts for the purpose of cash flow (since Bad-debt is a non-cash item)	38,00,000
Opening Trade Receivables	60,00,000
Working Capital change due to Trade Receivables	22,00,000
Creditors	
Closing Balance as per B/s	37,00,000
less: Exchange Loss	1,00,000
Closing Creditors before Exchange Loss for the purpose of cash flow (since Ex. loss is a non-cash item)	36,00,000
Opening Creditors Balance	32,00,000
Working Capital change due to Trade Receivables	4,00,000
Prepaid Expenses	
Closing Balance as per B/s	8,00,000
less: TDS included in Closing balance	20,000
Net Closing balance of Prepaid Exp.	7,80,000
Opening Balance	7,00,000
Working Capital change due to Trade Receivables	80,000



Student Notes: -