

Unit 6: Cash Flow Statement

NCERT · Class 12 · Accountancy · Part 2

Short Questions for NCERT Accountancy Solutions Part 2 Class 12 Chapter 6

Question 1

What is a cash flow statement?

Solution

A financial statement that represents the inflow and outflow of cash and cash equivalents of a company is called a cash flow statement. It shows how well a company can manage its cash position and generates enough cash to pay the obligations in the form of debt and also run the operational expenses.

Question 2

How are the various activities classified (as per AS-3 revised) while preparing the cash flow statement?

Solution

Three types of activities are defined, and they are as follows:

1. Operating Activities
 2. Financing Activities
 3. Investing Activities
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Question 3

State the uses of the cash flow statement.

Solution

The following are the uses of the cash flow statement:

- i. Useful for evaluating the cash position of a firm
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- ii. Helpful in finding deficiencies and variations in firms' performance which helps in effective decision making
 - iii. It helps in the assessment of the liquidity of a company
 - iv. It analyses cash receipts and payments from the various activities of a company and helps in short-term planning
 - v. It helps in segregating cash flows obtained from the various activities of the business
 - vi. It helps in providing decisions about the distribution of profit.
 - vii. It is useful for short-term financial analysis
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Question 4

What are the objectives of preparing a cash flow statement?

Solution

The following are the objectives of preparing a cash flow statement:

- i. To determine the inflow and outflow of cash and the cash equivalents obtained from different kinds of activities.
 - ii. To seek out various reasons responsible for the change in cash balances during the accounting period
 - iii. It helps in depicting the position of the company in terms of liquidity and solvency
 - iv. It also helps in determining the requirement and the corresponding availability of cash for business in future.
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Question 5

State the meaning of the terms: Cash Equivalents, Cash flows.

Solution

Cash equivalents are investments that are highly liquid in nature and do not change value easily. Cash equivalents are essential for managing short-term cash requirements or any such investments. For example, treasury bills.

Cash Flows: It is the inflow and outflow of cash and cash equivalents. Cash inflows boost cash balance, and cash outflow has a negative impact on cash balance

Question 6

Prepare a format of cash flow from operating activities under the indirect method.

Solution

The format is as follows:

Indirect Method		
Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items		***
<i>Add:</i> Non-Cash Expenses and Non-Operating Expenses		
Depreciation	**	
Goodwill	**	
Interest paid	**	
Loss on sale of fixed assets	**	
Foreign exchange	**	**
<i>Less:</i> Non-Operating Incomes.		
Dividend received	**	
Profit on sale of fixed assets	**	
Interest received	**	**
Operating profit before working capital changes		***
<i>Add:</i> Decrease in Current Assets	***	
Increase in Current Liabilities	***	***
<i>Less:</i> Increase in Current Assets	***	
Decrease in Current Liabilities	***	***
Cash generated from Operating Activities		***
Income tax paid		***
Cash Flow before Extraordinary Items		***
<i>Add/Less:</i> Extra ordinary Items		***
Net Cash Flow from Operating Activities		***

Question 7

State clearly what would constitute the operating activities for each of the following enterprises:

(i) Hotel

(ii) Film production house

(iii) Financial enterprise

(iv) Media enterprise

(v) Steel manufacturing unit

(vi) Software development business unit.

(i) Hotel

Solution

1. Receipts obtained from the sale of goods to customers
2. Customer stay, payments of wages and salaries, food items, and electricity are operating activities

(ii) Film Production House:

1. Receipts obtained from the selling of film rights to distributors
2. Payment provided to actors, actresses, directors and other employees

(iii) Financial Enterprises:

1. Receipts obtained from loan repayments and interest received from investments
2. Salary for employees, expenditure incurred for recovering loans, loan repayment etc.

(iv) Media Enterprises:

1. Receipts that are obtained from various advertisements
2. Payments made to photographers, employees and reporters

(v) Steel Manufacturing Unit:

1. Receipts obtained from the sale of steel rods, castings and sheets
2. Payments made for purchasing iron, coal and salaries to staff

(vi) Software Development Business Unit:

1. Receipts obtained for software sales and license renewal
2. Payments towards salaries of employees

Question 8

“The nature/type of enterprise can change altogether the category into which a particular activity may be classified.” Do you agree? Illustrate your answer.

Solution

Yes, it can happen. For example, there are two firms one is engaged in real estate and the other in general business. For the firm engaged in the real estate sale of a building will be regarded as part of the operating activity, while for the firm dealing with general business, the purchase or sale of a building is regarded as an investing activity. Therefore, it can be said that nature and type of enterprise determine the type of activities.

Long Questions for NCERT Accountancy Solutions Part 2 Class 12 Chapter 6

Question 1

Describe the procedure to prepare a cash flow statement.

Solution

The following are the steps to prepare a cash flow statement:

- i. Determine cash flows obtained from operating activities
 - ii. Determine cash flows obtained from financing activities
 - iii. Determine cash flow obtained from investing activities
 - iv. Determine net increase or decrease, which is obtained by adding amounts from all the cash flow activities.
5. Add the opening balance of cash and the cash equivalents and deduct the same from the amount determined in the previous step.

The two methods which are used for the preparation of a cash flow statement are listed below:

1. Direct Method
2. Indirect Method

Direct Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities		
	Cash Sales	**	
	Cash receipt from Debtors	**	
	<i>Less:</i> Cash Purchases	**	
	Cash paid to creditors and other expenses	**	
	Cash Generated from Operating Activities	**	
	<i>Less:</i> Income Tax Paid	**	
	Cash flow before Extraordinary Items	**	
	<i>Add/Less:</i> Extraordinary Items	**	
	Net Cash Flow from (used in) Operating Activities	**	**
B.	Cash Flow from Investing Activities	**	
	Sale of Fixed Assets	**	
	Sale of long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	<i>Less:</i> Purchase of Fixed Assets	**	
	<i>Less:</i> Purchase of long-term Investment	**	
	Net Cash Flow from Investing Activities	**	**
C.	Cash Flow from Financing Activities		
	Proceeds from Issue of Shares	**	
		**	

Proceeds from Issue of Debentures and Other Long-term Borrowings	**	
Less: Repayment of Debentures and Other Long-term Borrowings	**	
Less: Redemption of Preference Shares	**	
Less: Interest Paid	**	
Less: Dividend Paid	**	
Net Cash flow from Financing Activities	**	**
Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C)		**
Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
Cash and Cash Equivalent at the end		**

Indirect Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities:		
	Net Profit before tax and extraordinary items		***
	<i>Add:</i> Non-Cash Expenses and non operating expenses.		
	Depreciation	**	
	Goodwill	**	
	Interest paid	**	
	Loss on sale of fixed assets	**	**
	<i>Less:</i> Non-Operating Incomes.		
	Dividend received	**	
	Profit on sale of fixed assets	**	
	Interest received	**	**
	Operating Profit before Working Capital Changes		***
	<i>Add:</i> Decrease in Current Assets	***	
	Increase in Current Liabilities	**	***
	<i>Less:</i> Increase in Current Assets	***	
	Decrease in Current Liabilities	***	***
	Cash generated from Operating Activities		***
	<i>Less:</i> Income tax paid		***
	Cash flow before Extra ordinary items		***
	<i>Add/Less:</i> Extra ordinary items		***
	Net Cash Flow from Operating Activities		***
B.	Cash Flow from Investing Activities	**	
	Sale of Fixed Assets	**	

	Sale of Long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	<i>Less:</i> Purchase of Fixed Assets	**	
	<i>Less:</i> Purchase of long term Investment	**	
	Net Cash Flow from Investing Activities	**	**
C.	Cash Flow from Financing Activities		
	Proceeds from Issue of shares	**	
	Proceeds from Issue of Debentures and other Long-term Borrowings	**	
	<i>Less:</i> Repayment of Debentures and other Long-term Borrowings	**	
	<i>Less:</i> Redemption of preference Share	**	
	<i>Less:</i> Interest paid	**	
	<i>Less:</i> Dividend paid	**	
	Net Cash Flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C))		**
	Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
	Cash and Cash Equivalents at the end		**

Question 2

Describe the “Indirect” method of ascertaining cash flow from operating activities.

Solution

In the indirect method, the cash flow statement begins with net income or loss and subsequently adds or deducts non-cash expenses and revenue items, which results in cash flow from operating activities. And they include the following:

- Items that are non-cash in nature, like goodwill and depreciation, added towards net profit

- ii. Expenses that are non-operating in nature, like transfer to reserve and loss on sale of fixed assets which are added back to show the net profit earned
- iii. Provisions such as discounts for debtors, doubtful debts, proposed dividends etc., should be added to net profit
- iv. Any decrease in current assets and an increase in current liabilities is added to operating profit

The following items get deducted from the net profit of the P & L account

- i. Incomes that are non-operating in nature, like the sale of fixed assets
- ii. Non-trading incomes like the dividend received, tax refund and interest received
- iii. Increase in current assets and decrease in current liabilities

Indirect Method		
Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items		***
<i>Add: Non-Cash Expenses and Non-Operating Expenses</i>		
Depreciation	**	
Goodwill	**	
Interest paid	**	
Loss on sale of fixed assets	**	
Foreign exchange	**	**
<i>Less: Non-Operating Incomes.</i>		
Dividend received	**	
Profit on sale of fixed assets	**	
Interest received	**	**
Operating profit before working capital changes		***
<i>Add: Decrease in Current Assets</i>	***	
Increase in Current Liabilities	***	***
<i>Less: Increase in Current Assets</i>	***	
Decrease in Current Liabilities	***	***
Cash generated from Operating Activities		***
Income tax paid		***
Cash Flow before Extraordinary Items		***
<i>Add/Less: Extra ordinary Items</i>		***
Net Cash Flow from Operating Activities		***

Question 3

Explain the major Cash Inflow and outflows from investing activities.

Solution

Investing activities consist of sales and purchase of fixed assets that are long-term in nature, like the building, land, furniture and plant and machinery etc. It also includes the sale and purchase of items that are not cash equivalents. If any income is received from these assets, it is regarded as a part of investing activities. The major cash inflows and outflows that are involved in investing activities are as follows:

- i. Cash receipts that are obtained when fixed assets are sold off, and it includes intangible assets
- ii. Acquiring fixed assets which also includes intangibles like goodwill using cash payments; the payments are for the research and development and assets that are self-constructed
- iii. Acquiring shares, debt instruments or warrants using cash payments
- iv. Disposal of shares and warrants that yield cash receipts
- v. Loans and cash advances that are made to third parties (does not includes loans and advances made by the financial enterprise)
- vi. Cash receipts obtained from any insurance company for a property that is involved in an accident
- vii. Cash receipts that are obtained for repayment of loans and cash advances made to third parties
- viii. Any type of income that is obtained from fixed assets like interest, dividend and rent (not in the case of financial enterprises)

Direct Method

Cash Flow Statement

	Particulars	Amount ₹	Amount ₹
	Net Cash Flow from (used in) Operating Activities	**	**
B.	Cash Flow from Investing Activities	**	
	Sale of Fixed Assets	**	
	Sale of long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	Less: Purchase of Fixed Assets	**	
	Less: Purchase of long-term Investments	**	
	Net Cash Flow from Investing Activities	**	**

Indirect Method
Cash Flow Statement

Particulars	Amount ₹	Amount ₹
Net Cash Flow from Operating Activities		***
Cash Flow from Investing Activities	**	
Sale of Fixed Assets	**	
Sale of Long-term Investments	**	
Interest Received	**	
Dividend Received	**	
Rent Received	**	
Less: Purchase of Fixed Assets	**	
Less: Purchase of long term Investment	**	
Net Cash Flow from Investing Activities	**	**

Question 4

Explain the major cash inflows and outflows from financing activities.

Solution

In a firm, the financing activities are associated with capital or long-term funds of the firm, and the financing activities bring about change in capital and borrowed funds.

The following cash inflows and outflows as per AS3 can be mentioned:

- i. Cash received from the issuing of shares and similar instruments causes cash inflow
- ii. Cash received from issuing of debentures, obtaining loans, bonds, and similar instruments brings cash inflow.
- iii. Repayments of debentures, loans and bonds in the form of cash are considered cash outflow
- iv. Buying back shares and debentures which were issued is also a cash outflow
- v. Interest payment for debentures, advances and loans
- vi. Dividend payment to equity and preference shareholders

Direct Method

Cash Flow Statement

	Particulars	Amount ₹	Amount ₹
	Net Cash Flow from Investing Activities	**	**
	Cash Flow from Financing Activities		
	Proceeds from Issue of Shares	**	
	Proceeds from Issue of Debentures and Other Long-term Borrowings	**	
	Less: Repayment of Debentures and Other Long-term Borrowings	**	
	Less: Redemption of Preference Shares	**	
	Less: Interest Paid	**	
	Less: Dividend Paid	**	
	Net Cash flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C))		**
	Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
	Cash and Cash Equivalent at the end		**

Indirect Method

Cash Flow Statement

Particulars	Amount ₹	Amount ₹
Net Cash Flow from Investing Activities	**	**
Cash Flow from Financing Activities		
Proceeds from Issue of shares	**	
Proceeds from Issue of Debentures and other Long-term Borrowings	**	
Less: Repayment of Debentures and other Long-term Borrowings	**	
Less: Redemption of preference Share	**	
Less: Interest paid	**	
Less: Dividend paid	**	
Net Cash Flow from Financing Activities	**	**
Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C))		**
Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
Cash and Cash Equivalents at the end		**

Numerical Questions for NCERT Solutions Accountancy Part 2 Class 12 Chapter 6

Question 1

Anand Ltd. arrived at a net income of ₹ 5, 00,000 for the year ended March 31, 2017. Depreciation for the year was ₹ 2,00,000. There was a profit of ₹ 50,000 on assets sold, which was transferred to the statement of profit and loss account. Trade Receivables increased during the year ₹ 40,000, and trade payables also increased by ₹ 60,000. Compute the cash flow operating activities by the indirect approach.

Solution

The solution to this question is as follows:

Cash Flow from Operating Activities as on March 31, 2017		
Particulars	Amount (₹)	Amount (₹)
Net Profit during the year		5,00,000
Items to be adjusted:		
Add: Depreciation	2,00,000	
Less: Gain on sale of assets	(50,000)	1,50,000
Operating Profit before Working Capital changes		6,50,000
Add: Increase in Trade Payables	60,000	
Less: Increase in Trade Receivables	(40,000)	20,000
Net Cash from Operations		6,70,000

Question 2

From the information given below, you are required to calculate the cash paid for the inventory:

Particulars	(₹)
Inventory in the beginning	40,000

Credit Purchases	1,60,000
Inventory at the end	38,000
Trade payables in the beginning	14,000
Trade payables at the end	14,500

Solution

The solution to this question is as follows:

Trade Payables Account							
Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Cash (Balancing fig.)		1,59,500		Balance b/d		14,000
	Balance c/d		14,500		Purchases		1,60,000
			1,74,000				1,74,000

Therefore the cash paid for Inventory amounts to ₹ 1, 59,500.

Question 3

For each of the following transactions, calculate the resulting cash flow and state the nature of cash flow, viz., operating, investing and financing.

- Acquired machinery for ₹ 2,50,000, paying 20% by cheque and executing a bond for the balance payable.
- Paid ₹ 2,50,000 to acquire shares in Informa Tech. and received a dividend of ₹ 50,000 after the acquisition.
- Sold machinery of original cost ₹ 2,00,000 with an accumulated depreciation of ₹ 1,60,000 for ₹ 60,000.

Solution

The solution to this question is as follows:

(a)

$$\text{Amount paid for Machinery} = 2,50,000 \times \frac{20}{100} = 50,000$$

Part-payment of ₹ 50,000 for acquiring machinery and ₹ 2,50,000 is related to investing activities.

(b)

	₹
Amount paid for acquiring shares	(2,50,000)
Dividend received	50,000
Net cash used in investing activities	(2,00,000)

Amount paid to acquire assets and dividends received is a part of investing activities.

(c) Inflow of cash of ₹ 60,000 on the sale of machinery is a part of investing activities.

Question 4

The following is the profit and loss account of Yamuna Limited:

Statement of Profit and Loss of Yamuna Ltd., for the Year Ended March 31, 2017			
Particulars		Note No.	Amount (₹)
i)	Revenue from Operations		10,00,000
ii)	Expenses		
	Cost of Materials Consumed	1	50,000
	Purchase of Stock-in-trade		5,00,000
	Other Expenses	2	3,00,000
	Total Expenses		8,50,000
iii)	Profit before Tax (i – ii)		1,50,000

Additional information:

- (i) Trade receivables decrease by ₹ 30,000 during the year.
- (ii) Prepaid expenses increase by ₹ 5,000 during the year.
- (iii) Trade payables increase by ₹ 15,000 during the year.
- (iv) Outstanding expenses payable increased by ₹ 3,000 during the year.
- (v) Other expenses included depreciation of ₹ 25,000.

Solution

Compute net cash from operations for the year ended March 31, 2017, by the indirect method.

The solution to this question is as follows:

Cash Flow from Operating Activities of Yamuna Limited as on March 31, 2017				
Particulars		Amount ₹	Amount ₹	
Net Profit earned during the year			1,50,000	
Items to be added:				
	Depreciation		25,000	
Operating Profit before Working Capital changes			1,75,000	
Add:	Increase in Current Liabilities			
	Outstanding Expenses	3,000		
Add:	Decrease in Current Assets			
	Trade Receivables	30,000		
	Stock	50,000	83,000	
Less:	Decrease in Current Liabilities			
	Trade Creditors	(15,000)		
Less:	Increase in Current Assets			

	Prepaid Expenses	(5,000)	(20,000)
Net Cash from Operations			2,38,000

Question 5

Compute cash from operations from the following figures:

- (i) Profit for the year 2016-17 is a sum of ₹ 10,000 after providing for depreciation of ₹ 2,000.
- (ii) The current assets and current liabilities of the business for the year ended March 31, 2016, and 2015 are as follows:

Particular	March 31, 2016 (₹)	March 31, 2017 (₹)
Trade Receivables	14,000	15,000
Provision for Doubtful Debts	1,000	1,200
Trade Payables	13,000	15,000
Inventories	5,000	8,000
Other Current Assets	10,000	12,000
Expenses payable	1,000	1,500
Prepaid Expenses	2,000	1,000
Accrued Income	3,000	4,000
Income received in advance	2,000	1,000

Solution

The solution to this question is as follows:

Cash Flow Statement for the Year Ending March 31, 2017		
Particulars	Details (₹)	Amount (₹)

Cash from Operating Activities		
Net Profit		10,000
Items to be added:		
Depreciation	2,000	2,000
Operating Profit before Working Capital Adjustments		12,000
Less: Increase in Current Assets		
Trade Receivables	(1,000)	
Accrued Income	(1,000)	
Accrued Income	(2,000)	
Other Current Assets	(3,000)	
Inventories		
Add: Increase in Current Liabilities		
Provision for Doubtful Debts	200	
Trade Payables	2,000	
Expense Payable	500	
Add: Decrease in Current Assets		
Prepaid Expenses	(1,000)	
Less: Decrease in Current Liabilities		
Income received in advance	1,000	
Net Cash From Operating Activities		7,700

Question 6

From the following particulars of Bharat Gas Limited, calculate cash flows from investing activities. Also, show the workings clearly preparing the ledger accounts:

Balance Sheet of Bharat Gas Ltd. as on 31 Mar. 2016 and 31 Mar. 2017			
Particulars	Note No.	Figures as the end of 2017 (₹)	Figures as at the end of reporting 2016 (₹)
II) Assets			
1. Non-current Assets			
a) Fixed assets			
i) Tangible assets	1	12,40,000	10,20,000
ii) Intangible assets	2	4,60,000	3,80,000
b) Non-current investments	3	3,60,000	2,60,000

Solution

Notes	1	Tangible assets = Machinery
	2	Intangible assets = Patents

Notes

	Figures of the current year	Figures of the previous year
1. Tangible Assets		
Machinery	12,40,000	10,20,000
2. Intangible Assets		
Goodwill	3,00,000	1,00,000
Patents	1,60,000	2,80,000
	4,60,000	3,80,000
3. Non-current Investments		
10% long-term investments	1,60,000	60,000
Investment in land	1,00,000	1,00,000

Shares of Amartex Ltd.	1,00,000	1,00,000
	3,60,000	2,60,000

Additional Information:

(a) Patents were written off to the extent of ₹. 40,000, and some patents were sold at a profit of ₹. 20,000.

(b) A machine costing ₹ 1,40,000 (Depreciation provided thereon ₹ 60,000) was sold for ₹ 50,000. Depreciation charged during the year was ₹ 1,40,000.

(c) On March 31, 2016, 10% of investments were purchased for ₹ 1,80,000, and some investments were sold at a profit of ₹ 20,000. Interest on investment was received on March 31, 2017.

(d) Amartax Ltd. paid dividends @ 10% on its shares.

(e) A plot of land had been purchased for investment purposes and let out for commercial use, and rent received ₹ 30,000.

The solution to this question is as follows:

Cash Flow from Investing Activities		
Particulars	Amount ₹	Amount ₹
Cash Inflow		
Proceeds from Sale of Patents	1,00,000	
Proceeds from Sale of Machinery	50,000	
Proceeds from Sale of 10% Long-term Investment	1,00,000	
Interest received on 10% Long-term Investment	6,000	
Dividend Received from Amartax Ltd.	10,000	
Rent Received	30,000	2,96,000
Cash Outflow		

Purchase of Goodwill	(2,00,000)	
Purchase of Machinery	(4,40,000)	
Purchase of 10% Long-term Investment	(1,80,000)	(8,20,000)
Net Cash used in Investing Activities		(5,24,000)

Patents Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		2,80,000		Profit and Loss (written off)		40,000
	Profit and Loss (Profit on sale)		20,000		Bank (sale- Balancing figure)		1,00,000
					Balance c/d		1,60,000
			3,00,000				3,00,000

Machinery Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		10,20,000		Depreciation		1,40,000
	Bank (Purchases- Balancing figure)		4,40,000		Bank		50,000
					Profit and Loss		30,000

					Balance c/d		12,40,000
			14,60,000				14,60,000
10% Long-term Investment Account							
Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		60,000		Bank (Balancing figure)		1,00,000
	Bank		1,80,000				
	Profit and Loss (Profit on sale)		20,000		Balance c/d		1,60,000
			2,60,000				2,60,000

Question 7

From the following Balance Sheet of Mohan Ltd., prepare the cash flow Statement.

Balance Sheet of Mohan Ltd., as on 31st March 2016 and 31 March 2017			
Particulars	Note No.	March 31, 2017 (₹)	March 31, 2016 (₹)
I) Equity and Liabilities			
1. Shareholders' Funds			
a) Equity share capital		3,00,000	2,00,000
b) Reserves and surplus		2,00,000	1,60,000
2. Non-current liabilities			

a) Long-term borrowings	1	80,000	1,00,000
3. Current liabilities			
Trade payables		1,20,000	1,40,000
Short-term provisions	2	70,000	60,000
Total		7,70,000	6,60,000
II) Assets			
1. Non-current assets			
Fixed assets	3	5,00,000	3,20,000
2. Current assets			
a) Inventories		1,50,000	1,30,000
b) Trade receivables	4	90,000	1,20,000
c) Cash and cash equivalents	5	30,000	90,000
Total		7,70,000	6,60,000

Solution

Notes to accounts:

	2017	2016
1. Long-term borrowings		
Bank Loan	80,000	1,00,000
2. Short-term provision		
Proposed dividend	70,000	60,000
3. Fixed assets	6,00,000	4,00,000
Less: Accumulated Depreciation	1,00,000	80,000
(Net) Fixed Assets	5,00,000	3,20,000
4. Trade receivables		

Debtors	60,000	1,00,000
Bills receivables	30,000	20,000
	90,000	1,20,000
5. Cash and cash equivalents		
Bank	30,000	90,000

Additional Information:

Machine Costing ₹ 80,000 on which accumulated depreciation was ₹ 50,000 was sold for ₹ 20,000.

The solution to this question is as follows:

Cash Flow Statement of Mohan Ltd.				
	Particulars	Amount ₹	Amount ₹	
A.	Cash Flow from Operating Activities			
	Profit as per the Balance Sheet (2,00,000 – 1,60,000)	40,000		
	Proposed Dividend	70,000		
	Net Profit before Taxation and Extraordinary items		1,10,000	
	Adjustments:			
	Depreciation	70,000		
	Loss on Sale of Machine	10,000	80,000	
	Operating Profit before Working Capital changes		1,90,000	
	Add: Decrease in Current Assets			
	Debtors	40,000	40,000	
			2,30,000	
	Less: Increase in Current Assets			

		Inventories	(20,000)	
		Bills Receivable	(10,000)	
	Less:	Decrease in Current Liabilities		
		Trade Payables	(20,000)	(50,000)
	Net Cash from Operations			1,80,000
B.	Cash Flow from Investing Activities			
		Proceeds from Sale of Fixed Assets		20,000
		Purchases of Fixed Assets		(2,80,000)
	Net Cash Outflow from Investing Activity			(2,60,000)
C.	Cash Flow from Financing Activities			
		Issue of Shares		1,00,000
		Bank Loan Paid		(20,000)
		Dividend Paid		(60,000)
	Net Cash from Financing Activities			20,000
D.	Net Decrease in Cash and Cash Equivalents (A+B+C)			(60,000)
	Add:	Cash and Cash Equivalents in the beginning		90,000
E.	Cash and Cash equivalents at the end			30,000

Fixed Assets Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹

	Balance b/d		4,00,000		Bank		20,000
	Bank (Purchases- Balancing fig.)		2,80,000		Profit and Loss		10,000
					Accumulated Depreciation		50,000
					Balance c/d		6,00,000
			6,80,000				6,80,000

Accumulated Depreciation Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Fixed Assets		50,000		Balance b/d		80,000
	Balance c/d		1,00,000		Profit and Loss (Balance fig.)		70,000
			1,50,000				1,50,000

Question 8

From the following balance sheets of Tiger Super Steel Ltd., prepare the cash flow statement:

Balance Sheet of Tiger Super Steel Ltd. as at 31st March 2014 and 31st March 2017			
Particulars	Note No.	March 31, 2017 (₹)	March 31, 2016 (₹)
I) Equity and Liabilities			
1. Shareholders' Funds			

a) Share capital	1	1,40,000	1,20,000
b) Reserves and surplus	2	22,800	15,200
2. Current Liabilities			
a) Trade payables	3	21,200	14,000
b) Other current liabilities	4	2,400	3,200
c) Short-term provisions	5	28,400	22,400
Total		2,14,800	1,74,800
II) Assets			
1. Non-Current Assets			
a) Fixed assets			
i) Tangible assets	6	96,400	76,000
ii) Intangible assets		18,800	24,000
b) Non-current investments		14,000	4,000
2. Current Assets			
a) Inventories		31,200	34,000
b) Trade receivables		43,200	30,000
c) Cash and Cash Equivalents		11,200	6,800
Total		2,14,800	1,74,800

Notes to accounts:

Solution

	2017	2016
1. Share Capital		
Equity share capital	1,20,000	80,000
10% Preference share capital	20,000	40,000
	1,40,000	1,20,000

2. Reserves and surplus		
General reserve	12,000	8,000
Balance in the statement of profit and loss	10,800	7,200
	22,800	15,200
3. Trade payables		
Bills payable	21,200	14,000
4. Other current liabilities		
Outstanding expenses	2,400	3,200
5. Short-term provisions		
Provision for taxation	12,800	11,200
Proposed dividend	15,600	11,200
	28,400	22,400
6. Tangible assets		
Land and building	20,000	40,000
Plant	76,400	36,000
	96,400	76,000

Additional Information:

Depreciation Charge on land & building ₹ 20,000, and Plant ₹ 10,000 during the year.

The solution to this question is as follows:

Cash Flow Statement of Tiger Super Steels Ltd			
	Particulars	Amount ₹	Amount ₹
A.	Cash Flow from Operating Activities		

	Profit as per the Balance Sheet (10,800 – 7,200)	3,600	
	General Reserve	4,000	
	Proposed Dividend	15,600	
	Provision for Taxation	12,800	
	Net Profit before Taxation and Extraordinary		36,000
	Items to be added:		
	Depreciation on Land and Building	20,000	
	Depreciation on Plant	10,000	
	Goodwill written off	5,200	35,200
	Operating Profit before Working Capital changes		71,200
	Add: Increase in Current Liabilities		
	Bills Payable	7,200	
	Add: Decrease in Current Assets		
	Inventories	2,800	10,000
			81,200
	Less: Increase in Current Assets		
	Trade Receivables	(13,200)	
	Less: Decrease in Current Liabilities		
	Outstanding Expenses	(800)	(14,000)
	Cash Generated from Operating Activities		67,200
	Less: Income Tax paid		(11,200)
	Net Cash from Operating Activities		56,000
B.	Cash Flow from Investing Activities		

	Purchases of Plant	(40,400)
	Purchases of Investment	(20,000)
	Net Cash used in Investing Activities	(60,400)
C.	Cash Flow from Financing Activities	
	Issue of Equity Shares	40,000
	Dividend paid	(11,200)
	Redemption of 10% Preference Shares	(20,000)
	Net Cash from Financing Activities	8,800
D.	Net Increase in Cash and Cash Equivalent	4,400
	Add: Cash and Cash Equivalent in the beginning	6,800
E.	Cash and Cash Equivalents at the end	11,200

Working Notes:

1.

Plant Account							
Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	To Balance b/d		36,000		By Depreciation		10,000
	To Bank A/c (Purchases- Balancing figure)		50,400		By Balance c/d		76,400
			86,400				86,400

2.

Net Profit before Tax		3,600
Profit and Loss Account		12,800
Less:	Provision for Tax	16,400

Question 9

From the following information, prepare a cash flow statement.

Particulars	Note No.	31 st March 2015 (₹)	31 st March 2014 (₹)
I) Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		7,00,000	5,00,000
b) Reserves and surplus		4,70,000	2,50,000
2. Non-current Liabilities			
(8% Debentures)		4,00,000	6,00,000
3. Current Liabilities			
a) Trade payables		9,00,000	6,00,000
Total		24,70,000	19,50,000
II) Assets			
1. Non-current assets			
a) Fixed assets			
i) Tangible		7,00,000	5,00,000
ii) Intangible-Goodwill		1,70,000	2,50,000
2. Current assets			
a) Inventories		6,00,000	5,00,000

b) Trade Receivables		6,00,000	4,00,000
c) Cash and cash equivalents		4,00,000	3,00,000
Total		24,70,000	19,50,000

Additional Information:

Depreciation Charge on the plant amount to ₹ 80,000.

Solution

Cash Flow Statement for the year ending March 31, 2015			
	Particulars	Details (₹)	Amount (₹)
A.	Cash from Operating Activities		
	Net Profit		2,20,000
	Items to be Added:		
	Interest on Debentures	48,000	
	Depreciation on Fixed Assets	80,000	
	Goodwill Written-off	80,000	2,08,000
	Operating Profit before Working Capital Adjustments		4,28,000
	Add: Increase in Current Liabilities		
	Creditors	3,00,000	
	Less: Increase in Current Assets		
	Inventories	(1,00,000)	
	Trade Receivables	(2,00,000)	–
	Cash Generated from Operations		4,28,000
	Less: Tax Paid		–

	Net Cash From Operating Activities		4,28,000
B.	Cash From Investing Activities		
	Purchase of Fixed Assets (WN)	(2,80,000)	
	Net Cash From Investing Activities		(2,80,000)
C.	Cash From Financing Activities		
	Issue of Share Capital	2,00,000	
	Redemption of Debentures	(2,00,000)	
	Interest Paid on Debentures	(48,000)	(48,000)
	Net Cash From Financing Activities (C)		(48,000)
	Net Increase in Cash (A + B + C)		1,00,000
	Add: Opening Cash and Cash Equivalents		3,00,000
	Closing Cash and Cash Equivalents		4,00,000

Working Note:

Fixed Assets Account					
Dr.					Cr.
Particulars	J.F.	Amount (₹)	Particulars	J.F.	Amount (₹)
Balance b/d		5,00,000	Depreciation		80,000
Purchases (Balancing Figure)		2,80,000	Balance c/d		7,00,000
		7,80,000			7,80,000

Question 10

From the following balance sheet of Yogeta Ltd., prepare the cash flow statement.

Particulars	Note No.	31 st March 2017 (₹)	31 st March 2016 (₹)
I) Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	4,00,000	2,00,000
b) Reserves and surplus-Surplus		2,00,000	1,00,000
2. Non-current Liabilities			
a) Long-term borrowings	2	1,50,000	2,20,000
3. Current Liabilities			
a) Short-term borrowings		1,00,000	–
(Bank overdraft)			
b) Trade payables		70,000	50,000
c) Short-term provision		50,000	30,000
(Provision for taxation)			
Total		9,70,000	6,00,000
II) Assets			
1. Non-current assets			
a) Fixed assets			
i) Tangible		7,00,000	4,00,000
2. Current assets			
a) Inventories		1,70,000	1,00,000
b) Trade Receivables		1,00,000	50,000
c) Cash and cash equivalents		–	50,000
Total		9,70,000	6,00,000

Solution

Notes to Accounts

Particulars	31st March 2017 (₹)	31st March 2016 (₹)
1. Share capital		
a) Equity share capital	3,00,000	2,00,000
b) Preference share capital	1,00,000	—
	4,00,000	2,00,000
2. Long-term borrowings		
Long-term loan	—	2,00,000
Long-term Rahul	1,50,000	20,000
	1,50,000	2,20,000

Additional Information:

Net Profit for the year after charging ₹ 50,000 as depreciation was ₹ 1,50,000. The dividend paid on shares was ₹ 50,000, Tax Provision created during the year amounted to ₹ 60,000.

The solution to this question is as follows:

Cash Flow Statement of Yogeta Ltd.			
	Particulars	Amount ₹	Amount ₹
A.	Cash Flow from Operating Activities		
	Profit as per Balance Sheet (2,00,000 – 1,00,000)	1,00,000	
	Proposed Dividend	50,000	
	Provision for Taxation	60,000	
	Net Profit before Taxation and Extraordinary items		2,10,000

	Items to be added:		
	Depreciation	50,000	50,000
	Operating Profit before Working Capital changes		2,60,000
	Add: Increase in Current liabilities		
	Trade Payable	20,000	20,000
			2,80,000
	Less: Increase in Current Assets		
	Inventories	(70,000)	
	Trade Receivable	(50,000)	(1,20,000)
	Cash Generated from Operating Activities		1,60,000
	Less: Income Tax paid		(40,000)
	Net Cash from Operations		1,20,000
B.	Cash Flow from Investing Activities		
	Purchases of Fixed Assets		(3,50,000)
	Net Cash used in Investing Activities		(3,50,000)
C.	Cash Flow from Financing Activities		
	Issue of Equity Shares		1,00,000
	Issue of Preference Shares		1,00,000
	Loan from Rahul		1,30,000
	Less: Repayment of Loan		(2,00,000)
	Dividend Paid		(50,000)
	Net Cash from Financing Activities		80,000

D.	Net decrease in Cash and Cash Equivalent (A+B+C)		(1,50,000)
	Add: Cash and Cash Equivalents in the beginning		50,000
E.	Cash and Cash Equivalents at the end (Bank Overdraft)		(1,00,000)

Working Notes:

1.

Provision for Taxation Account							
Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Bank (Balancing figure)		40,000		Balance b/d		30,000
	Balance c/d		50,000		Profit and Loss		60,000
			90,000				90,000

2.

Fixed Assets Account							
Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		4,00,000		Depreciation		50,000
	Bank		3,50,000		Balance c/d		7,00,000
			7,50,000				7,50,000

Question 11

Following is the financial statement of Garima Ltd. Prepare the cash flow statement.

Particulars	Note No.	31 st March 2017 (₹)	31 st March 2016 (₹)
I) Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	4,40,000	2,80,000
b) Reserve and surplus-Surplus	2	40,000	28,000
2. Current Liabilities			
a) Trade payables		1,56,000	56,000
c) Short-term provisions		12,000	4,000
(Provision for taxation)			
Total		6,48,000	3,68,000
II) Assets			
1. Non-current assets			
a) Fixed assets			
i) Tangible		3,64,000	2,00,000
2. Current assets			
a) Inventories		1,60,000	60,000
b) Trade receivables		80,000	20,000
c) Cash and cash equivalents		28,000	80,000
d) Other current assets		16,000	8,000
Total		6,48,000	3,68,000

Solution

Notes to Accounts

Particulars	31st March 2017 (₹)	31st March 2016 (₹)
1. Share capital		
a) Equity share capital	3,00,000	2,00,000
b) Preference share capital	1,40,000	80,000
	4,40,000	2,80,000
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	28,000	
Add: Profit of the year	16,000	
Less: Dividend	4,000	
Profit at the end of the year	40,000	

Additional Information:

1. Interest paid on debenture ₹ 600
2. Dividend paid during the year ₹ 4,000
3. Depreciation charged during the year ₹ 32,000

The solution to this question is as follows:

Cash Flow Statement (Indirect Method)			
	Particulars	Amount ₹	Amount ₹
A.	Cash Flow from Operating Activities		
	Profit as per Balance Sheet (40,000 – 28,000)	12,000	
	Proposed Dividend	4,000	
	Provision for Taxation	12,000	
	Net Profit before Taxation and Extraordinary items		28,000

	Items to be added:		
	Interest paid on Debentures	600	
	Depreciation	32,000	32,600
	Operating Profit before Working Capital changes		60,600
	Add: Increase in Current liabilities		
	Trade Payables	1,00,000	
	Less: Increase in Current Assets		
	Other Current Assets	(8,000)	
	Inventories	(1,00,000)	
	Trade Receivables	(60,000)	(68,000)
	Cash generated from Operating Activities		(7,400)
	Less: Income Tax paid		(4,000)
	Net Cash used in Operating Activities		(11,400)
B.	Cash Flow from Investing Activities		
	Purchase of Fixed Assets		(1,96,000)
	Net Cash used in Investing Activities		(1,96,000)
C.	Cash Flow from Investing Activities		
	Issue of Equity Shares		1,00,000
	Issue of Preference Shares		60,000
	Less: Interest Paid on Debentures		(600)
	Less: Dividend Paid		(4,000)
	Net Cash from Financing Activities		1,55,400

D.	Net decrease in cash and cash equivalent (A+B+C)		(52,000)
	Add: Cash and Cash Equivalents in the beginning		80,000
E.	Cash and Cash Equivalents at the end		28,000

Working Notes:

Plant and Machinery Account							
Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance b/d		2,00,000		Depreciation		32,000
	Bank (Purchases- Balancing fig.)		1,96,000		Balance c/d		3,64,000
			3,96,000				3,96,000

Question 12

From the following balance sheet of Computer India Ltd., prepare a cash flow statement.

(₹ in '000)			
Particulars	Note No.	31 st March 2017 (₹)	31 st March 2016 (₹)
I) Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		50,000	40,000
b) Reserves and surplus-Surplus	1	3,700	3,000
2. Non-Current Liabilities			
10% Debentures		6,500	6,000

3. Current Liabilities			
a) Short-term borrowings	2	6,800	12,500
b) Trade payables		11,000	12,000
c) Short-term provisions	3	10,000	8,000
Total		88,000	81,500
II) Assets			
1. Non-current assets			
a) Fixed assets	4	25,000	30,000
2. Current assets			
a) Inventories		35,000	30,000
b) Trade receivables		24,000	20,000
c) Cash and cash equivalents-cash		3,500	1,200
d) Other current assets-prepaid exp.		500	300
Total		88,000	81,500

Solution

Notes to Accounts

	Particulars	31st March 2017 (₹)	31st March 2016 (₹)
1.	Reserve and surplus		
	(i) Balance in the statement of profit and loss	1,200	1,000
	(ii) General reserve	2,500	2,000
		3,700	3,000
2.	Short-term borrowings		

	Bank Overdraft	6,800	12,500
3.	Short-term provisions		
	(i) Provision for taxation	4,200	3,000
	(ii) Proposed dividend	5,800	5,000
		10,000	8,000
4.	Fixed Assets:		
	Fixed Assets	40,000	41,000
	Less: Accumulated Depreciation	(15,000)	(11,000)
		25,000	30,000

Additional Information:**Interest paid on Debenture ₹ 600**

The solution to this question is as follows:

Cash Flow Statement of Computer India Ltd.			
		(‘00,000)	
	Particulars	Amount ₹	Amount ₹
A.	Cash Flow from Operating Activities		
	Profit as per Balance Sheet (1,200 – 1,000)	200	
	Proposed Dividend	5,800	
	General Reserve	500	
	Provision for Taxation	4,200	
	Net Profit before Tax and Extraordinary items		10,700
	Items to be added		

		Provision for Depreciation	4,000	
		Interest paid on Debentures	600	4,600
		Operating Profit before Working Capital changes		15,300
		Adjustments		
		Less: Increase in Current Assets		
		Trade Receivables	(4,000)	
		Inventories	(5,000)	
		Prepaid Expenses	(200)	(9,200)
				6,100
		Less: Decrease in Current Liabilities		
		Trade Creditors	(1,000)	(1,000)
		Cash generated from Operating Activities		5,100
		Less: Income Tax Paid		(3,000)
		Net Cash from Operation		2,100
		B. Cash Flow from Investing Activities		
		Sale of Fixed Assets		1,000
		Net Cash from Investing Activities		1,000
		C. Cash Flow from Financing Activities		
		Issue of Equity Shares		10,000
		Issue of 10% Debentures		500
		Less: Dividend paid		(5,000)
		Less: Interest paid		(600)
		Net Cash from Financing Activities		4,900

D.	Net Increase in Cash and Cash Equivalent (A+B+C)			8,000
	Add:	Cash and Cash Equivalent in the beginning		
		Cash	1,200	
		Bank Overdraft	(12,500)	(11,300)
E.	Cash and Cash Equivalents at the end			
		Cash	3,500	
		Bank Overdraft	(6,800)	(3,300)

The concepts covered in this chapter are listed below:

- Nature of the cash flow statement
- Benefits of cash flow statement
- Cash and cash equivalents
- Cash flows
- Preparation of cash flow statement

Conclusion