

Unit 6.CASH FLOW STATEMENT

LEARNING OBJECTIVES

- i) To understand the meaning of cash flow statement
- ii) To understand the meaning of cash, cash funds and cash equivalents.
- iii) To calculate operating profit and cash flow from operating activities
- iv) To understand operating and non-operating expenses and incomes.
- v) To calculate cash flow from operating, investing and financing activities.
- vi) To prepare cash flow statement with additional information

SALIENT POINTS :

- ❖ **Classification of Activities :** The cash flow from Operating, Investing and Financing are shown separately in Cash flow statement.
- ❖ **Non cash items :** The flow of cash which affects the statement is reflected in the preparation of Cash flow statement.

- i) What do you mean by cash flow statement?

A statement which shows inflow and outflow of cash and cash equivalents from operating, investing and financing activities during a specific period.

- ii) What are the various activities classified as per AS-3(revised) related to cash flow statement?

- (a) cash flow from operating activities
- (b) cash flow from investing activities
- (c) cash flow from financing activities.

- iii) State one objective of cash flow statement.

Helpful for short term planning, for preparing cash budget

- iv) What do you mean by cash equivalent?

Short –term highly liquid investments which are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value.

- v) State the category of the following items for a financial as well as non-financial company

- (1) Dividend received
- (2) Dividend received
- (3) Interest paid
- (4) Interest received

Answer

	Financial company	non-financial company
(1) Dividend received	operating activity	investing activity
(2) Dividend paid	financing activity	financing activity
(3) Interest paid	operating activity	financing activity
(4) Interest received	operating activity	investing activity

(Note; for objective type questions any one or two can be asked)

vi) What are the objectives of preparing cash flow statement?

Ans. The objectives of cash flow statement are:

- To ascertain the specific sources (i.e., operating / investing financing activities) of cash and cash equivalents generated by an enterprise.
- To ascertain the specific uses (i.e., operating / investing / financing activities) of cash and cash equivalents used by an enterprise.
- To ascertain the net change in cash and cash equivalents (sources minus uses of cash and cash equivalents) between the date of two Balance Sheets.

Problems

- Calculate the net amount of cash flow if a fixed asset costing Rs. 32,000(having a book value of Rs. 24,000) is sold at a loss of Rs. 8,000.
Cash inflow from investing activities – Rs. 16,000
(Book value – loss = Amount received from sale Rs. 24000 – Rs. 8,000)
- From the following information calculate cash flow from operating activities:
Profit and loss account

For the year ended on 31-03-2007

Particulars	Amount	Particulars	Amount
To Cost of goods sold	6,20,000	By sales	9,60,000
To selling and distribution expenses	52,000	By Profit on sale of furniture	12,000
To office Expenses	1,20,000	By interest Received	2,400
To Loss on sale of machinery	57,600		
To depreciation	24,000		
To Discount on debentures	8,000		
To payment for taxation	28,800		
To Net Profit	64,000		
	9,74,400		9,74,400

Additional information

Debtors	1,12,000	1,31,200
Stock	67,200	92,000
Creditors	50,000	60,000
Outstanding expenses	2,800	1,600

SOLUTION

Particulars	Amount	Amount
Net Profit before Taxation and extraordinary items	92,800	
Net Profit +Taxation(64,000+28,800)		
Add non-operating expenses		
Depreciation 24,000		
Loss on sale of machinery 57,600		
Discount on debentures written off 8,000	89,600	
	1,82,400	
less non-operating incomes		
Profit on sale of furniture (12000)		
Interest Received (2,400)	(14,400)	
operating profit before working capital changes	1,68,000	
Adjustments related to current assets and liabilities		
Add: Increase in current Liabilities		
Creditors	10,000	
	1,78,000	
Less : Decrease in current liabilities		
outstanding expenses	(1,200)	
less Increase in current assets		
debtors 19,200		
Stock 24,800	(44,000)	
	1,32,800	
Less payment of taxes	(28,800)	
Net cash flow from operating activities		1,04,000

3) From the following balance sheet calculate cash flow from operating activities.

liabilities	2,007	2008	Assets	2007	2,008
Creditors	31,200	39,000	cash in hand	7,800	3,120
Bills payable	33,600	7,800	cash in hand	9,800	3,680
Income received in advance	40,000	50,000	Short term investments	15,600	10,800
outstanding salaries	20,000	20,200	Investments	62,400	46,800
10% Debentures	93,600	1,24,800	Inventory	46,800	70,200
equity share capital	80,000	80,000	Debtors	39,000	46,800
profit and loss	30,000	62,400	Bills receivable	7,800	15,600
General Reserve	16,800	31,200	Fixed assets	1,56,000	2,18,400
	3,45,200	4,15,400		3,45,200	4,15,400

Solution

Particulars	Amount	Amount
Net Profit Before Tax and Extraordinary items		
(profit+Transfer to general reserve)		
(Rs. 32,000+Rs. 14,400)	46,800	
Adjustments		
items to be added		
Interest on debentures	9,360	
Operating profit before working capital changes		56,160
Adjustments related to current assets and liabilities		
Add : Increase in Current liabilities		
creditors	7,800	
Income Received in advance	10,000	
outstanding salaries	200	18,000
		74,160
Less: Increase in Current Assets		
Inventory	(23,400)	
Debtors	(7,800)	
Bills Receivable	(7,800)	(39,000)
		35,160
Less :Decrease in Current Liabilities		
Bills Payable	(25,800)	
Net Cash from Operating Activities		9,360

- 4) X Ltd. made a profit of Rs.1, 00,000/- after charging depreciation of Rs.20,000/- on assets and a transfer to General Reserve of Rs.30,000/-. The Goodwill written off was Rs.7, 000/- and the gain on sale of machinery was Rs.3, 000/-. The other information available to you (changes in the value of current assets and current liabilities) is as follows:

At the end of the year Debtors showed an increase of Rs.6, 000/-, creditors an increase of Rs.10, 000/-, prepaid expenses an increase of Rs.200/-, Bills Receivable a decrease of Rs.3, 000/-, Bills Payable a decrease of Rs.4, 000/- and outstanding expenses a decrease of Rs.2, 000/-. Ascertain the cash flow from the operating activities.

Ans. Solution :

CASH FLOW FROM OPERATING ACTIVITIES

Particulars	Rs.
Net Profit	1,00,000
Add : Transfer to General Reserve	30,000
Net Profit before Tax	1,30,000
Adjustment for non-cash and non-operation expenses :	
Add : Depreciation	20,000
Goodwill Written Off	7,000
	27,000
Less : Gain on Sale of Machinery	3,000
	24,000
Operating Profit before working capital changes	1,54,000
Add : Decrease in Current Assets and Increase in Current Liabilities	
Increase in Creditors	10,000
Decrease in Bills Receivable	3,000
	13,000
	1,67,000
Less : Increase in Current Assets and Decrease in Current Liabilities :	
Increase in Debtors	6,000
Increase in Prepared Expenses	200
Decrease in Bill s Payable	4,000
Decrease in Outstanding Expenses	2,000
	12,200
Cash Flow from Operating Activities	1,54,800

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- 5) From the following Balance Sheets of Ranjan Ltd. prepare Cash Flow Statement:

Liabilities	2001	2002	Assets	2001	2002
Equity Share Capital	1,50,000	2,00,000	Goodwill	36,000	20,000
12% Pre. Share Capital	75,000	50,000	Building	80,000	60,000
General Reserve	20,000	35,000	Plant	40,000	1,00,000
Profit and Loss A/c	15,000	24,000	Debtors	1,19,000	1,54,500
Creditors	37,500	49,500	Stock	10,000	15,000
		Cash	12,500	9,000	
	2, 97,500	2, 58,500		2, 97,500	3, 58,500

Depreciation charged on plant was Rs. 10000 and building Rs. 60000.

Ans. Solution:

Rajan Ltd.

CASH FLOW STATEMENT for the year ended 31st December, 2002

Particular's	Rs.	Rs.
A. Cash Flow from Operating Activities		
B. Net Profit before tax :		
Closing Balance of Profit and Loss A/c		
Closing Balance of Profit and Loss A/c	24,000	
Add: Transfer to General Reserve	15,000	
	39,000	
Less: Opening Balance of Profit and Loss A/c	15,000	
Net Profit before tax and extraordinary items		24,000
Adjustments for:		
Add: Depreciation on Plant	10,000	
Depreciation on Building	60,000	
Goodwill written off	16,000	86,000
Operating profit before working capital changes		1,10,000
Adjustments for:		
Increase in Creditors	12,000	
Increase in Debtors	(35,500)	
Increase in Stock	(5,000)	(28,500)
Net Cash from operating activities (A)		81,500

B. Cash Flow from Investing Activities

Purchase of Plant (Note 2)	(70,000)	
Purchase of Building (Note 1)	(40,000)	
Net cash used in investing activities	(B)	(1,10,000)

C. Cash Flow from financing Activities

Issue of Equity Shares	50,000	
Redemption of 12% Preference Shares	(25,000)	
Net Cash from financing activities	(C)	25,000
Net decrease in cash and cash equivalents	(A+B+C)	(3,500)
Cash and cash equivalents at the beginning of the year		12,500
Cash and cash equivalents at the close of the year		9,000

Working Notes:

1. Dr.		BUILDING ACCOUNT		Cr.	
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	80,000		By Depreciation A/c	60,000
	To Bank A/c	70,000		By Balance c/d	60,000
		1, 20,000			1, 20,000

2. Dr.		PLANT ACCOUNT		Cr.	
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	40,000		By Depreciation A/c	10,000
	To Bank A/c	70,000		By Balance c/d	1, 00,000
		1,10,000			1,10,000

- 6) From the following Balance Sheet of India Ltd. and the additional information given made out the Cash Flow Statement:

Liabilities	2007	2008	Assets	2007	2008
Share Capital	3, 00,000	4, 00,000	Goodwill	1, 15,000	90,000
Mortgage Loan	1, 50,000	1, 00,000	Land & Building	2, 00,000	1, 70,000
General Reserve	40,000	70,000	Plant	80,000	2, 00,000
P & L A/c	30,000	48,000	Debtors	1, 60,000	2, 00,000

Proposed Div.	42,000	50,000	Stock	77,000	1, 09,000
Creditors	55,000	83,000	Bills Receivable	20,000	30,000
Bills Payable	20,000	16,000	Cash in hand	15,000	10,000
Provisions for Taxation	40,000	50,000	Cash at Bank	10,000	8,000
	6, 77,000	8, 17,000		6, 77,000	8, 17,000

Additional information:

(1) Depreciation of Rs.1,000/- and Rs.20,000/- has been charged on Plant and Land & Building respectively in 2006-07.

(2) The interim dividend of Rs.20, 000/- has been paid in 2007-08.

(3) Income Tax of Rs.35, 000/- was paid during the year 2007-08.

Ans. Cash Flow from operating activities Rs. 1, 25,000, cash used in investing activities Rs. 120000 cash used in Financing Activities Rs. 12,000, Net decrease in cash and Bank Balance Rs. 7000.

7) From the following prepare cash flow statement as per AS-3

Liabilities	2010	2011	Assets	2010	2011
Share Capital	2,88,000	3,20,000	Fixed Assets	2,40,000	4,00,000
Reserves And Surpluses	64,000	80,000	Less Accumulated Dep.	64,000	1,20,000
Bank Loan	80,000	60,000		1,76,000	2,80,000
creditors	2,48,000	2,40,000	Goodwill	64,000	56,000
bills payable		4,000	Investments	72,000	88,000
Proposed Dividend	36,000	48,000	Stock	1,60,000	1,80,000
Income Tax Payable	20,000	24,000	Debtors	1,60,000	1,52,000
			Bank	1,04,000	20,000
	7,36,000	7,76,000		7,36,000	7,76,000

Additional
information:

- (i) During the year a part of the machinery costing Rs. 40,000 was sold for Rs. 20,000.
- (ii) Depreciation provided during the year Rs. 80,000.
- (iii) Interim Dividend paid during the year Rs. 20,000.

Solution

Cash Flow Statement for the year ended 2011

A Cash flow from operating activities:

Profit before Tax and Extraordinary items	1,08,000
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Adjustments for :

Add: Depreciation	80,000
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Goodwill Written off	8,000
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Less: Profit on sale of Machinery	(4,000)
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operating profit before working capital changes	1,92,000
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Add : Decrease in current assets:

Debtors	8,000
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Add: increase in current liability:

Bills payable	4,000	12,000
		2,04,000

Less : increase in current assets

Stock	20,000
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less : Decrease in Current Activities

Creditors	8,000	(28,000)
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cash from operating activities	1,76,000
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Less Tax paid	(20,000)
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Net cash flow from operating activities	1,56,000
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B Cash flow from investing activities

sale of machinery	20,000	
purchase of fixed assets	(2,00,000)	
purchase of investment	(16,000)	
Cash flow in investing activities		1,96,000

C: Cash flows from operating activities:

Issue of Share capital	32,000	
Repayment of bank loan	(20,000)	
payment of dividend		
regular	36,000	
interim	20,000	(56,000)
Cash used in financing activities		(44,000)
A+B+C=		(84,000)
Add cash and cash equivalents at the beginning		1,04,000
cash and cash equivalents at the end		20,000

Working Notes

(i) Calculation of Profit before tax and extra ordinary items:

Net profit during the year	-----	
Add: Transfer to reserves	16,000	
Proposed dividend	48,000	
Income tax provision	24,000	
Interim Dividend	20,000	
		1,08,000

Fixed assets account			
Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To balance b/d	2,40,000	By Bank (sale)	40,000
To Cash a/c (B.F)(purchase)	2,00,000	By Balance c/d	4,00,000
	4,40,000		4,40,000

Machinery Disposal Account			
			Cr.
To Fixed Assets a/c	40,000	By cash a/c	20,000
TO Profit and loss a/c (B.F)	4,000	By accumulated dep.	24,000
	44,000		44,000

Accumulated Depreciation Account			
			Cr.
To assets disposal a/c	24,000	by balance b/d	64,000
To bal c/d	1,20,000	By P &L a/c	24,000
	1,44,000		1,44,000

Income Tax Payable a/c			
To cash a/c	20,000	By Balance b/d	20,000
To Balance c/d	24,000	By P&L a/c	24,000
	44,000		44,000

Unit: 6
CASH FLOW STATEMENT

Qus:1 Why is the cash flow statement not a suitable judge of profitability ?

Qus:2 Under which accounting standard , cash flow statement is prepared ?

Qus:3 Why do we add back depreciation to net profit while calculating cash flow from operating activities.

Qus:4 How will you classify loans given by Birla Finance Ltd.? While preparing cash flow statement.

Qus:5 How will you classify deposits by customers in HDFC Bank while preparing cash flow statement.

Qus:6 Where will you show purchase of computer in cash flow statement ?

Qus:7 Give two examples of ‘ Significant non cash transactions ‘.

Qus:8 How will you classify loans given by Tata Manufacturing Company.

Qus:9 A company receives a dividend of Rs. 2 Lakhs on its investment in other company's share will it be

Cash inflow from operating or investing activities in case of a.

(i) Finance Company.

(ii) Non-Finance Company.

Qus:10 How are various activities classified as per AS-3 (Revised) ?

Qus:11 Cash flow from operating Activities + Cash flow from Investing Activities + Cash flow from Financing

Activities =.....

Qus:12 What are the two methods which can be employed to calculate net cash flow from operating activities ?

Qus:13 Escorts Ltd. Engaged in the business of manufacturing tractors invested Rs.40,00,000 in the shares of a Car manufacturing Company. state with reason whether the dividend received on this investment will be cash flow from operating activities or Investing activities.

Qus:14 Modern Toys Ltd. Purchased a machinery of Rs.20,00,000 for manufacturing toys. State giving reason Whether the cash flow due to the purchase of machinery will be cash flow from operating activities,

Investing activities or Financing activities ?

Qus:15 From the following profit or loss account find out the flow of cash from operating activities of Mohan Ltd.

Dr.

PROFIT AND LOSS ACCOUNT

Cr.

Particulars	Amount	Particulars	Amount
	(Rs)		(Rs)
To Rent Paid 14,000		By Gross Profit	1,82,000
Less: Prepaid <u>2,000</u>	12,000	By Profit on Sale of Machine	
To Salaries	25,000	By Tax Refund	12,000
To Depreciation	15,000	By Rent received 4,000	
To Loss on sale of Furniture	10,000	Add: Rent accrued <u>1,000</u>	3,800
To Goodwill written Off	8,000		
To Bad Debts	3,000		
To Office Expenses	18,000		5,000
To Discount allowed	7,000		
To Proposed Dividend	30,000		
To Provision for Tax	22,000		
To Net Profit	<u>52,800</u>		
	2,02,800		2,02,800

Note: There was increase in Closing stock by Rs. 25,000.

Qus:16 Prepare Cash flow Statement from the following information of Box Ltd. For the year ended March 31,2004.

BALANCE SHEETS OF LION LTD. AS ON MARCH 31,2004

Liabilities	2003	2004	Assets	2003	2004
	(Rs)	(Rs)		(Rs)	(Rs)
Share capital	3,00,000	4,00,000	Goodwill	70,000	30,000
Profit & Loss Account	1,20,000	2,60,000	Machinery	3,00,000	3,20,000
General Reserve	60,000	95,000	12% Investments	1,50,000	3,00,000
Tax Provision	70,000	80,000	Stock	35,000	1,85,000
Creditors	50,000	90,000	Debtors	50,000	70,000
Bill Payables	30,000	10,000	Cash at Bank	30,000	40,000
Depreciation Provision	25,000	40,000	Short term Investment	20,000	30,000
	6,55,000	9,75,000		6,55,000	9,75,000

Additional Information :

1. Investment costing Rs.50,000 were sold for Rs. 48,000 during the year.
2. Tax paid during the year Rs.70,000.
3. Interest received on Investment Rs. 12,000.