

## 11. CASH FLOW STATEMENT

## ASSIGNMENT SOLUTIONS

**PROBLEM NO: 1**

Generally, the performance of any business organization is determined by cash generating ability. The cash generating ability of enterprise can be identified from the following three activities.

- Cash Flow from Operating Activities,
- Cash Flow from Investing Activities,
- Cash Flow from Financing Activities.

The organization which generates more cash from Operating Activities than Investing & Financing is said to be better cash generating ability.

In the given Case,

Activities	Total Cash Flow of A Ltd.	Total Cash Flow of B Ltd.
Operating	5,000	30,000
Investing	20,000	3,000
Financing	20,000	3,000
<b>TOTAL</b>	<b>45,000</b>	<b>36,000</b>

Even though cumulative cash flow of A Ltd is higher than cumulative cash flow of B Ltd, But the Operating Cash Flow of A Ltd is less than Operating Cash Flow of B Ltd.

There by, B Ltd has better cash generating capacity.

**PROBLEM NO: 2**

A Ltd.

Cash Flow Statement for the year ended 31st March, 2015

(Using direct method)

(Rs. in '000)

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from investing activities</b>		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
<b>Net increase in cash</b>		<b>100</b>
<b>Cash at beginning of the period</b>		<b>50</b>
<b>Cash at end of the period</b>		<b>150</b>

**PROBLEM NO: 3**

Gamma Ltd.

Cash Flow Statement for the year ended 31st March, 2014

(Using direct method)

(Rs. in Crores)

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Cash flows from operating activities</b>		
Cash sales (60% of 135)	81	
Cash receipts from Debtors $[45 + (135 \times 40\%) - 50]$	49	
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers $[21 + (55 \times 80\%) - 23]$	(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
<b>Cash flows from investing activities</b>		
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
<b>Cash flows from financing activities</b>		
Redemption of debentures $(22 - 15)$	(7)	
Interest paid	(1.5)	
Dividend paid	(11.7)	
Net cash used in financing activities		(20.2)
<b>Net increase in cash</b>		<b>12.2</b>
<b>Cash at beginning of the period</b>		<b>6.0</b>
<b>Cash at end of the period</b>		<b>18.2</b>

**PROBLEM NO: 4**

Cash Flow Statement for the year ended 31st March, 2010

	Amount (Rs.)	Amount (Rs.)
<b>I. Cash flow from operating activities</b>		
Cash receipts from customers (W.N.1)	32,03,000	
<b>Less:</b> Cash paid to suppliers and payment for expenses (W.N.3)	(20,43,000)	
Cash generated from operations	11,60,000	
Income tax paid (Rs.3,30,000 - Rs.22,500)	(3,07,500)	
Net cash from operating activities		8,52,500
<b>II. Cash flows from investing activities</b>		
Sale of furniture	12,000	
Purchase of machinery	(3,30,000)	
Net cash used in investing activities		(3,18,000)
<b>III. Cash flow from financing activities</b>		
Proceeds from issue of equity shares	7,20,000	
Redemption of 8% preference shares	(10,30,000)	
Dividend paid (Rs.40,000 + Rs.1,10,000)	(1,50,000)	
Dividend distribution tax paid	(22,500)	
Net cash used in financing activities		(4,82,500)
<b>Net increase in cash and cash equivalents</b>		<b>52,000</b>
<b>Add: Cash and cash equivalents as on 31<sup>st</sup> March, 2009 (Bal. fig.)</b>		<b>73,000</b>
<b>Cash and cash equivalents as on 31<sup>st</sup> March, 2010</b>		<b>1,25,000</b>

1. Working Notes: 1. Cash receipt from customers: Credit sales = Total sales Rs.32,00,000 - Cash sales Rs.11,50,000 = Rs.20,50,000

## Total Debtors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	1,50,000	By Cash/Bank (Bal. fig.)	20,53,000
To Credit sales	20,50,000	By Balance c/d	1,47,000
	<b>22,00,000</b>		<b>22,00,000</b>

Total sale receipts = Rs.20,53,000 + Rs.11,50,000 = Rs.32,03,000

## 2. Cash payment to suppliers:

Credit Purchases = Total purchases Rs.8,00,000 – Cash purchases Rs.60,000 = Rs.7,40,000

## Total Creditors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Cash/Bank (Bal. fig.)	7,35,000	By Balance b/d	78,000
To Balance c/d	83,000	By Credit purchases	7,40,000
	<b>8,18,000</b>		<b>8,18,000</b>

Total payments to suppliers = Rs.7,35,000 + Rs.60,000 = Rs.7,95,000

## 3. Cash paid to suppliers and payment for expenses

Particulars	Amount (Rs.)
Outstanding expenses as on 31.3.2009	63,000
<b>Add:</b> Expenses charged to profit and loss account	12,40,000
	13,03,000
<b>Less:</b> Outstanding expenses as on 31.3.2010	55,000
Payment on account of expenses	12,48,000

Total of payment to suppliers and payment for expenses = Rs.7,95,000 + Rs.12,48,000 = Rs. 20,43,000

**PROBLEM NO: 5**

## Cash flow statement for the year ended 31st March, 2015 (Rs. in Crores)

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Cash flow from operating activities:</b>		
Cash sales	131	
Cash collected from credit customers	67	
<b>Less:</b> Cash paid to suppliers for goods & services and to employees	(159)	
Cash from operations	39	
<b>Less:</b> Income tax paid	(13)	
Net cash generated from operating activities		26.00
<b>Cash flow from investing activities:</b>		
Payment for purchase of Machine	(40.00)	
Proceeds from sale of Machine	20.70	
Net cash used in investing activities		(19.30)
<b>Cash flow from financing activities:</b>		
Redemption of Preference shares	(16.00)	
Proceeds from issue of Equity shares	20.00	
Debenture interest paid	(1.00)	
Dividend Paid	(11.70)	
Net cash used in financing activities		(8.70)
<b>Net decrease in cash and cash equivalents</b>		(2.00)
<b>Add: Cash and cash equivalents as on 01.04.2014</b>		9.00
<b>Cash and cash equivalents as on 31.03.2015</b>		<b>7.00</b>

**PROBLEM NO: 6**

Bell Co. Ltd.

Cash Flow Statement for the year ended 31st March, 2013 (Rs. in Millions)

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Cash flows from operating activities</b>		
Net profit	3.30	
<b>Add:</b> Depreciation and amortization	0.75	
Loss from disposal of assets	1.20	
Operating profit before working capital changes	5.25	
<b>Less:</b> Increase in accounts receivables	(1.50)	
<b>Net cash generated from operating activities</b>		3.75
<b>Cash flows from investing activities</b>		
Capital expenditure	(9.90)	
Proceeds from sale of fixed assets	1.60	
Net cash used in investing activities		(8.30)
<b>Cash flows from financing activities</b>		
Proceeds from issue of additional shares	6.50	
Dividend paid	(0.50)	
Redemption of 4.5% debentures	(2.50)	
Net cash generated from financing activities		3.50
<b>Net decrease in cash and cash equivalents</b>		(1.05)
<b>Cash and cash equivalents at beginning of the period</b>		1.55
<b>Cash and cash equivalents at end of the period (Balancing figure)</b>		0.50

**PROBLEM NO: 7**

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

Particulars	Amount (Rs.)
Closing balance as per Profit & Loss A/c	90,000
<b>Less:</b> Opening balance as per Profit & Loss A/c	(50,000)
<b>Add: Goodwill amortisation</b>	25,000
<b>Add:</b> Discount on issue of Debentures	10,000
Interest on Debentures	75,000
Net Cash from Operating Activities	1,50,000
<b>Cash flows from financing activities:</b>	
Proceeds from debentures	2,15,000
Interest paid on Debentures [less unpaid]	(70,000)
Net Cash from Financing Activities	1,45,000

Working Note:

(i) Dr. Discount on issue of Debentures Account Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	90,000	By Profit & Loss A/c (w/o)	10,000
To 15% Debentures A/c (B/f)	35,000	By Balance c/d	1,15,000
	1,25,000		1,25,000

(ii) Dr. 15% Debentures Account Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance C/d	7,50,000	By Balance B/d	5,00,000
		By Bank A/c (Bal. fig.)	2,15,000
		By Discount on issue of Debentures A/c	35,000
	7,50,000		7,50,000

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**PROBLEM NO: 8**

## Indirect Method

## Cash flow from operating activities for the year ended 31st March, 2015

Particulars	Amount (Rs.)	Amount (Rs.)
Net Profit as per Profit & Loss A/c		8,08,900
<b>Add:</b> Dividend payable		72,000
<b>Add:</b> Transfer to reserve		87,000
<b>Add:</b> Provision for Tax made during the Current Year		1,25,000
<b>Less:</b> Refund of tax		(3,000)
<b>Less:</b> Extraordinary items (i.e. Insurance Claim - Major Fire Settlement)		(1,00,000)
Net Profit before taxation, and extraordinary items		9,89,900
<b>Add:</b> Depreciation		86,700
<b>Add:</b> Patents written off		35,000
<b>Less:</b> Profit on sale of investments		(10,000)
Operating profit before working capital changes		11,01,600
Increase in Inventory	(40,000)	
Increase in trade receivables	(67,500)	
Increase in trade payables	63,790	
Decrease in prepaid expenses	2,850	(40,860)
Cash generated from operations		10,60,740
Income taxes paid (net of refund)		1,15,775
Cash flow before extraordinary item		9,44,965
Insurance claim recovery (major fire settlement)		1,00,000
Net cash from operating activities		<b>10,44,965</b>

**PROBLEM NO: 9**

## Cash Flow Statement of A (P) Ltd. for the year ended 31st March 2015

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Cash flows from operating activities</b>		
Profit before tax	5,90,000	
Adjustments for		
Depreciation	2,20,000	
Interest paid	1,40,000	
Dividend received	(50,000)	
Operating profit before working capital changes	9,00,000	
<b>Add:</b>		
Decrease in trade receivables	70,000	
Increase in trade payables	50,000	
	10,20,000	
<b>Less:</b> Increase in inventory	(20,000)	
Cash generated from operations	10,00,000	
<b>Less:</b> Tax paid	(2,60,000)	
Cash flow from operating activities		7,40,000
<b>Cash flows from investing activities</b>		
Purchase of fixed assets [20,00,000+2,20,000-17,00,000]	(5,20,000)	
Dividend on investments	50,000	
Cash used in investing activities		(4,70,000)
<b>Cash flows from financing activities</b>		
Long term loan taken	60,000	
Interest paid	(1,40,000)	
Dividend paid	(1,80,000)	
Cash used in financing activities		(2,60,000)
<b>Net increase in cash during the year</b>		<b>10,000</b>
<b>Add: Opening cash balance</b>		<b>60,000</b>
<b>Closing cash balance</b>		<b>70,000</b>

**PROBLEM NO: 10**

Cash Flow Statement as per AS 3

(Rs. in Lakhs)

Cash flows from operating activities:	Amount (Rs.)	Amount (Rs.)
Net profit before tax provision		72,000
<b>Add:</b> Non cash expenditures:		
Depreciation	48,000	
Loss on sale of assets	96	
Interest expenditure (non-operating activity)	24,000	72,096
		1,44,096
<b>Less:</b> Non cash income		
Amortisation of capital grant received	(20)	
Profit on sale of investments (non-operating income)	(240)	
Interest income from investments (non-operating income)	(6,000)	6,260
Operating profit		1,37,836
<b>Less:</b> Increase in working capital		(1,34,580)
Cash from operations		3,256
<b>Less:</b> Income tax paid		(10,200)
Net cash generated from operating activities		(6,944)
Cash flows from investing activities:		
Sale of assets (444 - 96)	348	
Sale of investments (66,636+240)	66,876	
Interest income from investments	6,000	
Purchase of fixed assets	(44,184)	
Expenditure on construction work	(83,376)	
Net cash used in investing activities		(54,336)
Cash flows from financing activities:		
Grants for capital projects	36	
Long term borrowings	1,11,732	
Interest paid	(26,084)	
Dividend paid	(20,404)	
Net cash from financing activities		65,280
<b>Net increase in cash</b>		<b>4,000</b>
<b>Add: Cash and bank balance as on 1.4.2016</b>		<b>12,000</b>
<b>Cash and bank balance as on 31.3.2017</b>		<b>16,000</b>

**PROBLEM NO: 11**

Cash flow statement of Lotus Ltd for the year ended 31.03.15

Particulars	Amount (Rs.)	Amount (Rs.)
<b>i. Cash flows from operating activities</b>		
Net profit before tax and extra ordinary items	1,35,000	
<b>Add:</b> Depreciation on Land & Buildings	20,000	
Depreciation on Plant & Machinery	55,000	
Operating profit before working capital changes	2,10,000	
Decrease in trade Payables (5,00,000 - 4,00,000)	(1,00,000)	
Decrease in inventory (3,00,000 - 2,80,000)	20,000	
Increase in trade receivable (4,20,000 - 4,00,000)	(20,000)	
Cash generated from operations	1,10,000	
<b>Less:</b> Income - Tax Paid	(45,000)	
Cash flow before extraordinary Items	65,000	
<b>Less:</b> Extraordinary Items	-	
Cash inflow from operating activities		65,000
<b>ii. Cash flows from investing activities</b>		
Sales of Investments	60,000	
Purchase of machinery	(1,25,000)	(65,000)
Net cash out flow from Investing activities		
<b>iii. Cash flows from financing activities</b>		

Proceeds from issue of equity share capital	1,50,000	
Repayment of long term loan	(1,00,000)	
Net Cash Inflow from Financing activities		50,000

**WORKING NOTES:**

## 1. Computation of net profit before tax and extraordinary items

Net profit for current year after appropriations [4,80,000 – 4,00,000] = Rs. 80,000

Add: Appropriations

-

Net profit before appropriations = Rs. 80,000

Add: provision for tax made during the current year = Rs. 55,000

= Rs.1,35,000

## 2. Dr. Investment A/c Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bal b/d	1,00,000	By Bank A/c (Bal. Fig)	60,000
To Capital Reserve (Profit on sales)	10,000	By Bal C/d	50,000
	<b>1,10,000</b>		<b>1,10,000</b>
To Bal b/d	50,000		

## 3. Dr. Prov. taxation A/c Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To bank a/c (Bal. Fig)	45,000	By bal b/d	50,000
To bal c/d	60,000	By P & L A/c	55,000
	<b>1,05,000</b>		<b>1,05,000</b>

## 4. Dr. Land &amp; Building A/c Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bal b/d	4,00,000	By Depreciation A/c	20,000
		By bal c/d	3,80,000
	<b>4,00,000</b>		<b>4,00,000</b>
To bal b/d	3,80,000		

## 5. Dr. Machinery A/c Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To bal b/d	7,50,000	By Depreciation A/c (Bal. fig)	55,000
To Bank a/c	1,25,000		
To Equity capital	1,00,000	By bal c/d	9,20,000
	<b>9,75,000</b>		<b>9,75,000</b>
To bal b/d	9,20,000		

**PROBLEM NO: 12****Cash flow Statement for the year ending 31<sup>st</sup> March, 2016**

	Particulars	Rs.	Rs.
1.	<b>Cash Flow from Operating Activities</b>		
	Closing balance as per Profit and Loss Account (A)		27,000
	<b>Less:</b> Opening balance as per Profit and Loss Account		(18,000)
	<b>Add:</b> Dividend declared during the year		37,000
	<b>Add:</b> Interim dividend paid during the year		10,000
	<b>Add:</b> Transfer to reserve		10,000
	<b>Add:</b> Provision for Tax		32,000
	Net profit before taxation, and extraordinary item (B)		98,000
	<b>Add:</b> Items to be added (C)		
	Depreciation	18,000	
	Loss on sale of Plant	3,000	
	Goodwill written off	13,000	34,000
	<b>Less:</b> Dividend Income (D)		(1,500)

	Operating profit before working capital changes [B + C - D] = E		1,30,500
	<b>Add:</b> Decrease in Current Assets and Increase in current Liabilities (F)		
	Decrease in Inventories	7,000	
	Increase in Trade Payables	21,000	28,000
	<b>Less:</b> Increase in Trade Receivables (Gross) (G)		(33,000)
	Cash generated from operations (E+F-G) = H		1,25,500
	<b>Less:</b> Income taxes paid (I)		(28,000)
	Net Cash from operating activities (J)		97,500
<b>2.</b>	<b>Cash Flows from investing activities:</b>		
	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)
<b>3.</b>	<b>Cash Flows from Financing Activities:</b>		
	Proceeds from issuance of share capital		1,00,000
	Redemption of preference shares		(50,000)
	Interim Dividend paid		(10,000)
	Final dividend paid		(27,000)
	Net cash from financing activities		13,000
<b>4.</b>	<b>Net increase in cash and cash equivalents (I+II+III)</b>		<b>15,000</b>
<b>5.</b>	<b>Cash and cash equivalents at beginning of Period</b>		<b>17,000</b>
<b>6.</b>	<b>Cash and cash equivalents at end of period (IV+V)</b>		<b>32,000</b>

**1. Dr. Land and Building Account Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale/revaluation)	25,600	By Balance c/d	75,000
	1,25,000		1,25,000

**2. Dr. Plant and Machinery Account Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (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

**3. Dr. Investment Account Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (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
Total	35,600		35,600

### PROBLEM NO: 13

Cash Flow Statement of X Ltd. for the year ended 31<sup>st</sup> March, 2015

Particulars	Amount (Rs.)	Amount (Rs.)
<b>Cash flow from Operating Activities</b>		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on fixed assets	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		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
<b>Cash flow from Investing Activities</b>		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
<b>Cash flow from Financing Activities</b>		
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)	(8,00,000)	
Net cash used in financing activities		(22,75,000)
<b>Net decrease in cash and cash equivalents during the year</b>		<b>(1,61,000)</b>
<b>Add: Cash and cash equivalents as on 31.3.2014</b>		<b>1,96,300</b>
<b>Cash and cash equivalents as on 31.3.2015</b>		<b>35,300</b>

**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.

### PROBLEM NO: 14

#### Cash from operating activities:

Particulars	Amount (Rs.)	Amount (Rs.)
Net profit	76,500	
<b>Add:</b> Interest on debentures	2,000	
<b>Less:</b> Profit on sale of plant and machinery	(2,500)	
<b>Add:</b> Depreciation	27,900	
Operating profit before working capital changes	1,03,900	
Add: Working capital changes		
Increase in debtors	(50,000)	
Increase in stock	(38,500)	
Increase in creditors	11,800	
Increase in provision for bad and doubtful debts	3,300	30,500

#### Cash flow from investing activities:

Particulars	Amount (Rs.)	Amount (Rs.)
Purchase of plant and machinery	(78,000)	
Sale of old plant and machinery	7,000	
Purchase of trade investment	(47,000)	
Sale of Free hold property	6,200	(1,11,800)

#### Cash flow from financing activities:

Particulars	Amount	Amount
Issue of debentures at discount	49,000	
Payment of dividend	(30,000)	
Payment of interest on debentures (50,000 x 6/12 x 8%)	(2,000)	17,000

Net decrease in cash and cash equivalents (64,300)

Bank borrowings 64,300

**Working Notes:**

Dr. **Plant and Machinery Account** Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bank A/c	78,000	By Asset disposal A/c	18,000
		By Balance c/d	60,000
	<b>78,000</b>		<b>78,000</b>

Dr. **Asset Disposal Account** Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Plant & Machinery A/c	18,000	By Provision for depreciation A/c	13,500
To Profit and Loss A/c	2,500	By Bank A/c	7,000
	<b>20,500</b>		<b>20,500</b>

Dr. **Provision for Depreciation Account** Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Asset disposal A/c	13,500	By Profit and Loss A/c	27,900
To Balance c/d	14,400		
	<b>27,900</b>		<b>27,900</b>

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**THE END**