

## **ILLUSTRATION 5.**

Calculate 'Cash flows from Operating activities' from the following information :

**Statement of Profit and Loss**  
*for the year ended 31st March, 2013*

<i>Particulars</i>	<i>Note No.</i>	<i>Amount</i>
		₹
I. Revenue from Operations		12,00,000
II. Other Income	1	18,000
III. Total Revenue		<u>12,18,000</u>
IV. Expenses :		
Cost of Materials Consumed		7,75,000
Employee Benefit Expenses		1,50,000
Finance Costs		45,000
Depreciation and Amortization Expenses	2	82,000

Other Expenses  
Total Expenses

V. Profit before Tax (III - IV)  
Tax Paid  
VI. Profit for the period

50,000
11,02,000
<u>1,16,000</u>
36,000
<u>80,000</u>

## Notes :

(1) Other Income :		(2)	Depreciation and Amortization Expenses :
Profit on Sale of Land	15,000		Depreciation
Interest Received	3,000		Goodwill Written off
	<u>18,000</u>		<u>72,000</u>
			10,000
			<u>82,000</u>

  

(3) Other Expenses :	
Loss on Sale of Plant	30,000
Office Expenses	20,000
	<u>50,000</u>

## Additional Information :

	as on 31st March, 2012	as on 31st March, 2013
	₹	₹
Trade Receivables	1,40,000	1,64,000
Inventory	84,000	1,15,000
Trade Payables	60,000	73,000
Office expenses outstanding	6,000	4,000

**SOLUTION : CASH FLOWS FROM OPERATING ACTIVITIES***for the year ended 31st March, 2013*

	₹	₹
Net Profit before Tax (Note 1)		1,16,000
Adjustments for non-cash and non-operating items :		
Add : Finance Costs		45,000
Depreciation		72,000
Goodwill written off		10,000
Loss on sale of Plant		<u>30,000</u>
		2,73,000
Less : Profit on sale of land		
Interest received	15,000	18,000
	<u>3,000</u>	<u>2,55,000</u>
Operating profit before working capital changes		
Add : Increase in Current Liabilities :		
Trade Payables		13,000
		2,68,000
Less : Increase in Current Assets :		
Trade Receivables	24,000	

CASH-FLOW STATEMENT			
Inventory	31,000		
Less : Decrease in Current Liabilities :			
Outstanding Exp.	2,000	57,000	
Cash generated from operating activities			2,11,000
Less : Tax Paid			(36,000)
Net Cash from operating activities			<u>1,75,000</u>

Note

## (I) Calculation of Net Profit before Tax :

Profit for the Period	80,000
Add : Provision for Tax (Tax Paid)	36,000
	<u>1,16,000</u>

**PLEASE REMEMBER**

While solving a question, '**Net Profit before Tax**' is written first of all. For calculating net profit before tax usually the following three items are added to the net profit given in the question :

- (i) Provision for Income Tax made during the year;
- (ii) Provision for Dividend to Shareholders.

Or

Dividend/Interim Dividend paid to Shareholders;

- (iii) Transfer to General Reserve or any other Reserve during the year.

**It may be noted that 'Net Profit before Tax' must be calculated in 'Notes' below the Cash Flow Statement.**

**ILLUSTRATION 6.**

Calculate 'Cash from operating activities' from the following information :

**STATEMENT OF PROFIT AND LOSS**  
*for the year ended 31st March, 2013*

	Note No.	₹
I. Revenue from Operations		<u>16,70,000</u>
II. Expenses :		
Cost of Materials Consumed		13,30,000
Employee Benefit Expenses		90,000
Depreciation and amortization expenses	1	42,000
Other Expenses	2	63,000
Total Expenses		<u>15,25,000</u>
III. Profit before Tax (I – II)		1,45,000
Tax Paid		15,000
IV. Profit after Tax		<u>1,30,000</u>

## Notes :

(1) Depreciation and Amortization Expenses :	₹	(2) Other Expenses :
Depreciation	32,000	Office Expenses
Share Issue Expenses		Selling Expenses
Written off	10,000	
	<u>42,000</u>	<u>40,000</u>
		23,000
		<u>63,000</u>

## Additional Information :

Current Assets and Current Liabilities	31-3-2012 ₹	31-3-2013 ₹
Trade Receivables	65,000	63,000
Trade Payables	50,000	59,000
Outstanding Expenses	2,000	1,600
Prepaid Expenses	900	1,200
Inventory	70,000	58,000

*Soh.*

CASH FLOWS FROM OPERATING ACTIVITIES  
for the year ended 31st March, 2013

	₹	₹
Net Profit before Tax (Note 1)		1,45,000
Adjustments for non-cash and non-operating items :		
Add : Depreciation		
Share Issue Expenses written off	32,000	
Operating profit before working capital changes	10,000	
Add : Decrease in Current Assets :		1,87,000
Trade Receivables		
Inventory	2,000	
Add : Increase in Current Liabilities :		
Trade Payables	12,000	
Less : Increase in Current Assets :		
Prepaid Expenses	9,000	23,000
Less : Decrease in Current Liabilities :		
Outstanding Expenses	300	2,10,000
Cash generated from operating activities	400	700
Less : Tax Paid		2,09,300
Net cash from operating activities		15,000
		<u>1,94,300</u>
Note : (1) Calculation of Net Profit before Tax :		
Profit for the Period	1,30,000	
Add : Provision for Tax (Tax Paid)	15,000	
		<u>1,45,000</u>

- (2) It will be assumed that provision for taxation made during the year equals the payment of taxation during the year.

### ILLUSTRATION 12.

X Ltd. made a profit of ₹1,00,000 after charging Depreciation of ₹20,000 on assets and a transfer to General Reserve of ₹30,000. The goodwill written off was ₹7,000 and the gain on sale of Machinery was ₹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 Trade Receivables showed an increase of ₹6,000; Trade Payables an increase of ₹10,000; Prepaid Expenses an increase of ₹200 and Outstanding Expenses a Decrease of ₹2,000. Ascertain the cash flow from the operating activities. (C.B.S.E. 2004)

### **SOLUTION :**

#### CALCULATION OF CASH FROM OPERATING ACTIVITIES *for the year ended .....*

	₹	₹
Net Profit before tax (Note 1)		1,30,000
Adjustments for non-cash and non-operating items :		
Add : Depreciation	20,000	
Goodwill written off	7,000	27,000
	<u>                  </u>	<u>                  </u>
		1,57,000
Less : Gain on sale of Machinery		- 3,000
	<u>                  </u>	<u>                  </u>
Operating profit before working capital changes		1,54,000

Add : Increase in Current Liabilities :  
Trade Payables

Less : Increase in Current Assets :

Trade Receivables

10,000

Prepaid Expenses

1,64,000

Decrease in Current Liabilities :

Outstanding Expenses

6,000  
200

2,000

8,200

Net Cash Flow from Operating Activities

1,55,800

Note : (1) Calculation of Net Profit before tax :

Profit made during the year 1,00,000

Add : Transfer to General Reserve 30,000

Net Profit before Tax 1,30,000

## ILLUSTRATION 22.

From the following information, calculate cash from operating activities :

	₹
Profit and Loss Balance on 1st April, 2010	25,000
Profit and Loss Balance on 31st March, 2011	80,000
Depreciation on Fixed Assets	12,500
Amortisation of Goodwill	8,000
Loss on Sale of Machine	20,000
Provision for Taxation	15,000
Transfer to General Reserve	30,000
Decrease in Trade Receivables	22,800
Decrease in Trade Payables	4,700
Outstanding Expenses on 1st April, 2010	5,000
Outstanding Expenses on 31st March, 2011	6,500
Prepaid Expenses on 1st April, 2010	2,000

## SOLUTION :

### CALCULATION OF CASH FROM OPERATING ACTIVITIES *for the year ended 31st March, 2011*

	₹
Net Profit before tax (Note 1)	1,00,000
Adjustments for non-cash and non-operating items :	
<i>Add</i> : Depreciation	12,500
Goodwill	8,000
Loss on Sale of Machine	20,000
	<u>40,500</u>
	1,40,500

Add : Decrease in Current Assets :				
Decrease in Trade Receivables		22,800		
Decrease in Prepaid Expenses		2,000		
Add : Increase in Current Liabilities :				
Increase in Outstanding Expenses		1,500	26,300	
				1,66,800
Less : Decrease in Current Liabilities :				
Decrease in Trade Payables			4,700	
Cash generated from operating activities				1,62,100
Tax paid <sup>(2)</sup>				15,000
Net Cash Flow from Operating Activities				1,47,100

Notes : (1) Calculation of Net Profit before tax :

Profit and Loss Balance on 31st March, 2011	80,000
Less : Profit and Loss Balance on 31st March, 2010	25,000
	55,000
Add : Transfer to General Reserve	30,000
Provision for tax made during the Current year	15,000
Net Profit before Tax	1,00,000

(2) It is assumed that tax paid during the year is equivalent to provision for taxation made during the year.

**ILLUSTRATION 25.**

Calculate Cash Flow from Investing Activities from the following particulars :

1st April, 2014	31st March, 2015
₹	₹
7,20,000	8,60,000

Plant &amp; Machinery

**Information :**

- (i) Depreciation charged during the year ₹85,000.
- (ii) Plant & Machinery having a written down value of ₹1,10,000 was sold for ₹1,25,000.

**SOLUTION :**

## PLANT AND MACHINERY ACCOUNT

Dr.	Cr.
<i>Particulars</i>	<i>₹</i>
To Balance b/d	7,20,000
To Profit on Sale	15,000
To Bank A/c (Balancing Figure, being purchase)	3,35,000
	<u>10,70,000</u>
<i>Particulars</i>	<i>₹</i>
By Bank A/c (Sale Proceeds)	1,25,000
By Depreciation A/c	85,000
By Balance c/d	8,60,000
	<u>10,70,000</u>

## CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
Proceeds from sale of Plant & Machinery	1,25,000
Payment for purchase of Plant & Machinery	(3,35,000)
Net Cash used in Investing Activities	<u>(2,10,000)</u>

**ILLUSTRATION 26.**

From the following information calculate the amount of Cash Flows from Investing Activities :

	Particulars	31.03.2011	31.03.2012
Plant and Machinery		₹	₹
Non Current Investments		8,50,000	10,00,000
Land (At cost)		40,000	1,00,000
		<u>2,00,000</u>	<u>1,00,000</u>

**Additional Information**

- (i) Depreciation charged on Plant and Machinery was ₹50,000.
- (ii) Plant and Machinery with a book value of ₹60,000 was sold for ₹40,000.
- (iii) Land was sold at a gain of ₹60,000.

**CASH-FLOW STATEMENT****SOLUTION :****Calculation of Cash from Investing Activities**

<i>Particulars</i>	<i>Amount</i>
Sale of Plant and Machinery	₹ 40,000
Sale of Land (See Note 1)	1,60,000
Purchase of Plant & Machinery (See Note 2)	(2,60,000)
Purchase of Non-Current Investments	(60,000)
Net Cash flows from Investing Activities	<u><u>(1,20,000)</u></u>

**Working Note No. 1****LAND A/C**

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Balance b/d	₹ 2,00,000	By Bank (Sale of Land)	₹ 1,60,000
To Gain on Sale of Land	60,000	(Balancing Figure)	1,00,000
	<u><u>2,60,000</u></u>	By Balance c/d	<u><u>2,60,000</u></u>

**Working Note No. 2****PLANT & MACHINERY A/C**

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Balance b/d	₹ 8,50,000	By Depreciation	₹ 50,000
To Bank (Purchase of Machinery) (Balancing Figure)	2,60,000	By Bank (Sale of Machinery)	40,000
	<u><u>11,10,000</u></u>	By Loss on Sale of Machinery	20,000
		By Balance c/d	<u><u>10,00,000</u></u>
			<u><u>11,10,000</u></u>

**Case II :— Preparation of Fixed Asset Account on Original Cost Basis :**

If the balance sheet contains an item of 'Provision for Depreciation' or 'Accumulated Depreciation' for both the years, it means that the fixed assets and provisions are shown at their original cost.

2,60,000

2,60,000

## Cash Flows from Financing Activities

### ILLUSTRATION 30.

From the following activities, calculate cash flows from financing activities :

	31.3.2007 ₹	31.3.2006 ₹
Equity Share Capital		
12% Preference Share Capital	8,00,000	6,00,000
14% Debentures	—	2,00,000
	1,00,000	—

### Additional Information :

- (i) Equity Shares were issued at a premium of 15%.
- (ii) 12% Preference Shares were redeemed at a premium of 5%.
- (iii) 14% debentures were issued at a discount of 1%.
- (iv) Interim dividend paid on Equity Shares ₹90,000.
- (v) Dividend paid on old Preference Shares ₹24,000.
- (vi) Interest paid on debentures ₹14,000.
- (vii) Underwriting commission of Equity Shares ₹10,000.

### SOLUTION :

#### CASH FLOWS FROM FINANCING ACTIVITIES

	₹
Proceeds from issue of Equity Share Capital (₹2,00,000 + Securities Premium ₹30,000 – Underwriting Commission ₹10,000)	2,20,000
Redemption of Preference Shares (₹2,00,000 + Premium on Redemption ₹10,000)	(2,10,000)
Proceeds from issue of Debentures (₹1,00,000 – ₹1,000)	99,000
Interim Dividend paid on Equity Shares	(90,000)
Dividend paid on Preference Shares	(24,000)
Interest paid on Debentures	(14,000)
Net Cash used in Financing Activities	<u>(19,000)</u>

### ILLUSTRATION 31.

From the following particulars from Rajeshwar Ltd., calculate Cash Flows from financing activities :

	2006 ₹	2007 ₹
Equity Share Capital	6,00,000	10,00,000
18% Preference Share Capital	4,00,000	3,00,000
Securities Premium Reserve	1,00,000	2,60,000
14% Debentures	2,00,000	2,50,000

## CASH-FLOW STATEMENT

Discount on Debentures	5,000	6,000
Underwriting commission on issue of shares	—	20,000
Bank Overdraft	1,00,000	1,50,000

## Additional Information :

- Dividend on preference shares and an interim dividend @ 15% were paid on equity shares on March 31, 2007.
- Preference shares were redeemed on March 31, 2007 at a premium of 5%. Such premium has been provided out of profit.
- New shares and debentures were issued on March 31, 2007.

**SOLUTION : CASH FLOWS FROM FINANCING ACTIVITIES**

₹	
Proceeds from issue of Equity Share Capital ( $\text{₹}4,00,000 + \text{Securities Premium Reserve } ₹1,60,000 - \text{Underwriting Commission } ₹20,000$ )	5,40,000
Redemption of Preference Shares ( $\text{₹}1,00,000 + \text{Premium } ₹5,000$ )	(1,05,000)
Proceeds from issue of Debentures ( $\text{₹}50,000 - ₹1,000$ )	49,000
Increase in Bank Overdraft	50,000
Dividend paid on Preference Shares (18% on $\text{₹}4,00,000$ )	(72,000)
Interim Dividend paid on Equity Shares (15% on $\text{₹}6,00,000$ )	(90,000)
Interest paid on Debentures (14% on $\text{₹}2,00,000$ )	(28,000)
<b>Net Cash from Financing Activities</b>	<b>3,44,000</b>

## ILLUSTRATION 36.

Following are the Balance Sheets of X Ltd. for two years. Prepare a Cash Flow Statement :

Particulars	Note No.	31.3.2012	31.3.2011
<b>I. EQUITY AND LIABILITIES :</b>		₹	₹
<b>(1) Shareholder's Funds :</b>			
(a) Share Capital		80,000	80,000
(b) Reserve & Surplus		80,000	30,000
<b>(2) Non-Current Liabilities :</b>			
Long-term Borrowings	1	—	75,000
<b>(3) Current Liabilities :</b>			
(a) Short-term Borrowings	2	25,000	37,000
(b) Trade Payables		90,000	46,000
(c) Short term Provisions	3	45,000	32,000
<b>TOTAL</b>		<b>3,20,000</b>	<b>3,00,000</b>
<b>II. ASSETS :</b>			
<b>(1) Non-Current Assets :</b>			
Fixed Assets	4	90,000	1,50,000
<b>(2) Current Assets :</b>			
(a) Current Investments (Short-term Investments)		30,000	20,000
(b) Inventory		90,000	60,000
(c) Trade Receivables		97,000	65,000
(d) Cash & Cash Equivalents		13,000	5,000
<b>TOTAL</b>		<b>3,20,000</b>	<b>3,00,000</b>

Notes : (1) Long-term Borrowings :

15% Loan

31.3.2012

31.3.2011

75,000

(2) Short-term Borrowings :

Bank Overdraft

—

37,000

(3) Short term Provisions :

Provision for Taxation

25,000

12,000

Proposed Dividends

15,000

20,000

30,000

32,000

45,000

## (4) Fixed Assets :

Plant & Machinery		
Less : Accumulated Depreciation	1,50,000	2,00,000
	60,000	50,000
	90,000	1,50,000
Loan was repaid on 1st April, 2011.		

## SOLUTION :

CASH FLOW STATEMENT  
for the year ended 31st March, 2012

Particulars	₹	₹
<b>A. Cash flows from Operating Activities :</b>		
Net profit before Tax (Note 1)	95,000	
Adjustments for non-cash and non-operating items :		
Add : Depreciation on Plant & Machinery <sup>(3)</sup>	10,000	
Operating profit before working capital changes	1,05,000	
Add : Increase in Current Liabilities :		
Trade Payables	44,000	
	1,49,000	
Less : Increase in Current Assets :		
Inventory	30,000	
Trade Receivables	32,000	62,000
	87,000	
Payment of Tax (for the year 2011)	12,000	
Net cash from operating activities	75,000	75,000
<b>B. Cash flows from Investing Activities :</b>		
Sale of Plant & Machinery <sup>(2)</sup>	50,000	
Net cash from investing activities	50,000	50,000
<b>C. Cash flows from Financing Activities :</b>		
Repayment of loan	(75,000)	
Repayment of Short term Borrowings (Bank Overdraft) <sup>(5)</sup>	(12,000)	
Payment of Dividend (for 2011)	(20,000)	
Net cash used in financing activities	(1,07,000)	(1,07,000)
Net increase in cash and cash equivalents		18,000
Add : Cash and cash equivalents in the beginning of the period <sup>(4)</sup>		25,000
Cash and cash equivalents at the end of the period		43,000

Notes : (1) Calculation of Net Profit before Tax :

Reserve & Surplus Balance on 31st March, 2012	80,000
Less : Reserve & Surplus Balance on 31st March, 2011	30,000
	50,000
Add : Proposed Dividend for Current year	30,000
Provision for Tax made during the Current year	15,000
Net Profit before Tax	95,000

**ILLUSTRATION 38.**

Following are the Balance Sheets of X Ltd. :

**BALANCE SHEET as at .....**

<i>Particulars</i>	Note No.	31.3.2012	31.3.2011
		₹	₹
<b>I. EQUITY AND LIABILITIES :</b>			
(1) Shareholder's Funds :			
(a) Share Capital		4,50,000	4,50,000
(b) Reserve & Surplus	1	3,78,000	3,56,000
(2) Non-Current Liabilities :			
Long-term Borrowings			
(3) Current Liabilities :	2	2,70,000	—
(a) Trade Payables			
(b) Short term Provision		1,34,000	1,68,000
TOTAL	3	10,000	75,000
12,42,000		<u>12,42,000</u>	<u>10,49,000</u>
<b>II. ASSETS :</b>			
(1) Non-Current Assets :			
Fixed Assets :			
(i) Tangible Assets			
(ii) Intangible Assets	4	3,20,000	4,00,000
(2) Current Assets :	5	60,000	50,000
(a) Current Investments			
(b) Inventory		70,000	78,000
(c) Trade Receivables		1,70,000	2,15,000
(d) Cash and Cash Equivalents		4,55,000	2,10,000
TOTAL		1,67,000	96,000
12,42,000		<u>12,42,000</u>	<u>10,49,000</u>

<b>Notes :</b>	(1) Reserve & Surplus :	31.3.2012	31.3.2011
	Retained Earnings	3,78,000	3,56,000
	(2) Long-term Borrowings :		
	Mortgage Loan	2,70,000	—
	(3) Short term Provision :		
	Provision for Taxation	10,000	75,000
	(4) Tangible Assets :		
	Land	1,40,000	2,50,000
	Plant & Machinery	1,80,000	1,50,000
		3,20,000	4,00,000
	(5) Intangible Assets :		
	Goodwill	60,000	50,000

**Additional Information :—**

- (I) Gain on sale of Land ₹30,000.
- (II) Depreciation on Plant & Machinery was provided at 10% on last year's balance.

## CASH-FLOW STATEMENT

6.62

- (III) Mortgage Loan was taken on 1st July, 2011 @ 12% p.a. and interest has been paid up-to date.

### SOLUTION :

#### CASH FLOW STATEMENT for the year ended 31st March, 2012

Particulars	₹	₹
<b>A. Cash flows from Operating Activities :</b>		
Net profit before Tax (Note 1)	32,000	
Adjustments for non-cash and non-operating items :		
Add : Depreciation on Plant & Machinery	15,000	
Interest on Mortgage Loan	24,300	
	<u>71,300</u>	
Less : Gain on sale of land	30,000	
	<u>41,300</u>	
Operating profit before working capital changes	41,300	
Add : Decrease in Current Assets :		
Inventory	45,000	
	<u>86,300</u>	
Less : Increase in Current Assets :		
Trade Receivables	2,45,000	
Decrease in Current Liabilities :		
Trade Payables	<u>34,000</u>	2,79,000
	<u>(1,92,700)</u>	
Income Tax paid for 2011	<u>(75,000)</u>	
Net cash used in operating activities	<u>(2,67,700)</u>	(2,67,700)
<b>B. Cash flows from Investing Activities :</b>		
Purchase of Plant & Machinery <sup>(2)</sup>	(45,000)	
Purchase of Goodwill <sup>(3)</sup>	(10,000)	
Sale of Land <sup>(4)</sup>	1,40,000	
Net cash from investing activities	<u>85,000</u>	85,000
<b>C. Cash flows from Financing Activities :</b>		
Proceeds from Mortgage Loan	2,70,000	
Interest on Mortgage Loan	<u>(24,300)</u>	
Net cash from financing activities	<u>2,45,700</u>	2,45,700
Net increase in cash and cash equivalents		63,000
Add : Cash and cash equivalents in the beginning of the period <sup>(5)</sup>		1,74,000
Cash and cash equivalents at the end of the period <sup>(5)</sup>		<u>2,37,000</u>

- Notes : (1) Calculation of Net Profit before Tax :
- |  |                 |
|--|-----------------|
| Retained Earnings on 31st March, 2012                | 3,78,000        |
| Less : Retained Earnings on 31st March, 2011         | <u>3,56,000</u> |
|  | 22,000          |
| Add : Provision for Tax made during the Current year | 10,000          |
|  | <u>32,000</u>   |

(v) is deducted.

is shown as Inflow of Cash under Investing Activity.

## ILLUSTRATION 45.

From the following Balance Sheets of XY Ltd. as at 31.3.2012 and 31.3.2011 prepare a Cash-Flow Statement :

Particulars	Note No.	31.3.2012	31.3.2011
<b>EQUITY AND LIABILITIES :</b>		₹	₹
(1) Shareholder's Funds :			
(a) Share Capital	1	8,50,000	4,60,000
(b) Reserve & Surplus	2	1,70,000	2,40,000
(2) Non-Current Liabilities :			
Long-term Borrowings	3	1,80,000	2,00,000
	TOTAL	<u>12,00,000</u>	<u>9,00,000</u>
<b>ASSETS :</b>			
(1) Non-Current Assets :			
Fixed Assets		7,00,000	5,00,000
(2) Current Assets :			
(a) Inventory		2,50,000	2,10,000
(b) Trade Receivables		1,90,000	1,40,000
(c) Cash & Cash Equivalents		60,000	50,000
	TOTAL	<u>12,00,000</u>	<u>9,00,000</u>

Notes : (1) Share Capital :	31.3.2012	31.3.2011
Equity Share Capital	7,50,000	4,00,000
8% Preference Share Capital	<u>1,00,000</u>	<u>60,000</u>
	<u>8,50,000</u>	<u>4,60,000</u>
(2) Reserve & Surplus :		
General Reserve	50,000	70,000
Profit & Loss Balance	<u>1,20,000</u>	<u>1,70,000</u>
	<u>1,70,000</u>	<u>2,40,000</u>
(3) Long-term Borrowings :		
10% Debentures	<u>1,80,000</u>	<u>2,00,000</u>

**Additional Information :**  
During the year machine costing ₹80,000 was sold for ₹50,000. Dividend paid ₹80,000.  
(C.B.S.E. 2008, Set I)

*Particulars*

₹

**A. Cash Flows from Operating Activities**

Net profit before Tax (Note 1)	10,000
Adjustments for non-cash and non-operating items :	
Add : Interest on Debentures	20,000
Loss on sale of Machinery	<u>30,000</u>
Operating profit before working capital changes	<u>50,000</u>
Less : Increase in Current Assets	
Inventory	40,000
Trade Receivables	<u>50,000</u>
Net Cash used in operating activities	<u>(30,000)</u>
	(30,000)

**B. Cash Flows from Investing Activities :**

Sale of Fixed Assets	50,000
Purchase of Fixed Assets <sup>(2)</sup>	<u>(2,80,000)</u>
Net Cash used in investing activities	<u>(2,30,000)</u>
	(2,30,000)

**C. Cash Flows from Financing Activities :**

Issue of Equity Share Capital	3,50,000
Issue of Preference Share Capital	40,000
Redemption of Long term Borrowings (Debentures) <sup>(2)</sup>	<u>(20,000)</u>
Dividend paid	<u>(80,000)</u>
Interest paid on Long term Borrowings (Debentures)	<u>(20,000)</u>
Net Cash from financing activities	<u>2,70,000</u>
	2,70,000
Net Increase in Cash and Cash Equivalents	10,000
Add : Cash and Cash equivalents in the beginning of the period	50,000
Cash and Cash equivalents at the end of the period	<u>60,000</u>

**Notes :**

(1)

Calculation of Net Profit before Tax :	₹
Profit & Loss Balance on 31st March, 2012	1,20,000
Less : Profit & Loss Balance on 31st March, 2011	<u>1,70,000</u>
Less : Transfer from General Reserve (Decrease in General Reserve)	<u>(50,000)</u>
Add : Dividend for Current year	(20,000)
Net Profit before Tax	<u>80,000</u>
	10,000

Note : Decrease in General Reserve is deducted because it is utilisation of past reserve.

**FIXED ASSETS ACCOUNT**

Cr.

<i>Particulars</i>	₹	<i>Particulars</i>	₹
balance b/d	5,00,000	By Bank A/c (Sale)	50,000
Bank A/c (Balancing figure,		By Loss on Sale	30,000

## CASH-FLOW STATEMENT

being purchase)

2,80,000	By Balance c/d	7,00,000
<u>7,80,000</u>		<u>7,80,000</u>

(3) It is assumed that debentures have been redeemed at the end of the year, i.e., on 31st March, 2012

\* Full marks will be given if preference dividend is also taken into consideration. In such a case, preference dividend on the opening balance will be ₹4,800 (i.e., 8% on ₹60,000) and the answer would be :

Net Profit before taxation	=	₹ 14,800
Cash used in operating activities	=	₹ (25,200)
Cash used in investing activities	=	₹ (2,30,000)
Cash from financing activites	=	₹ 2,65,200

\* No marks will be deducted if interest on debentures and dividend on preference shares have been calculated on the closing balances.

Schedule III is not applicable in case of Sole Proprietorship or Partnership