Q.1. From the following information calculate net cash flows from operating activities

Trading and Profit and Loss Account for the year ending March 31, 2010

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount(Rs) | Particulars | Amount(Rs) |
| To Purchases |  | By Sales |  |
| Cash | 1800000 | Cash | 2700000 |
| Credit | 600000 | Credit | 300000 |
| To Wages | 300000 |  |  |
| To Gross Profit c/d | 300000 |  |  |
|  | 3000000 |  | 3000000 |
| To Depreciation on plant | 60000 | By Gross Profit b/d | 300000 |
| To Salaries | 150000 | By Interest Received | 60000 |
| To Loss on sale of plant | 15000 | By profit on sale of investment | 90000 |
| To Net Profit | 225000 |  |  |
|  | 450000 |  | 450000 |

All sales and purchases were made on credit during last quarter of financial year. Therefore, no cash was paid to creditors or collected from debtors during the year.

You are required to calculate cash flow from operating activities by adopting direct method.

Solution: Cash flow from operating activities

|  |  |
| --- | --- |
| Particulars | Amount(Rs) |
| Cash Sales | 2700000 |
| Receipts from Debtors | - |
| Total Receipts(A) | 2700000 |
| Less: Cash Purchases | 1800000 |
| Less: Payment to Creditors | - |
| Less: Payment to employees-Wages | 300000 |
| Less: Payment to employees- Salaries | 150000 |
| Total Payments(B) | 2250000 |
| Net Cash flow from operating activities(A) –(B) | 450000 |
|  |  |
|  |  |

Q.2 Calculate net cash flow from operating activities from the following, under indirect method.

1. Profit for the year Rs 1500000 after considering following items:

a. Profit on sale of Land Rs 18000.

b. Depreciation on fixed assets Rs.60000.

c. Transfer to General Reserve Rs 32000

d. Goodwill written off Rs 20000

The following is the position of current assets and current liabilities on March 31, 2010

|  |  |  |
| --- | --- | --- |
| Particulars | 2010(Rs) | 2009(Rs) |
| Debtors | 90000 | 70000 |
| Creditors | 60000 | 88000 |
| Bills Receivable | 45000 | 56000 |
| Prepaid Expenses | 20000 | 30000 |

Solution: Cash flow from operating activities

|  |  |
| --- | --- |
|  | Amount(Rs) |
| Net Profit as per Profit & Loss Account | 1500000 |
| Add: Transfer to General Reserve(Appropriation item) | 32000 |
| Add: Depreciation(Non cash item) | 60000 |
| Add: Goodwill written off(Amortization item) | 20000 |
|  | 1612000 |
| Less: Profit on sale of Land(investment item) | 18000 |
|  | 1594000 |
| Less: Decrease in Bills Receivable(Decrease in current asset) | 11000 |
| Less: Decrease in Prepaid Expenses(Decrease in current asset) | 10000 |
|  | 1573000 |
| Add: Increase in Debtors(Increase in current asset) | 20000 |
| Add: Decrease in Creditors(Decrease in current liabilities) | 28000 |
|  | 1621000 |