



BACHELOR OF COMPUTER APPLICATIONS

SEMESTER 4

DCA2204

PRINCIPLES OF FINANCIAL ACCOUNTING AND MANAGEMENT

Unit 11

Cash Flow Analysis

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1. INTRODUCTION

Cash is the lifeblood of business. A firm receives cash from various sources like sales, debtors, sale of assets, investments etc. Likewise, the firm needs cash to make payment to salaries, rent dividend, interest etc. Cash flow statement reveals the inflow and outflow of cash during a particular period.

1.1 Objectives:

After studying this unit, you will be able to:

- ❖ *Explain the meaning of Cash Flow Statement*
- ❖ *Explain the uses of Cash Flow Statement*
- ❖ *Explain the steps in preparing Cash Flow Statement*
- ❖ *Distinguish between Cash & Fund Flow Statement*
- ❖ *Compute the Cash from Operations.*

2. MEANING OF CASH FLOW STATEMENT

Cash flow statement reveals the inflow and outflow of cash during a particular period. It is prepared on the basis of historical data showing the inflow and outflow of cash. It is an important tool of cash planning and control.

a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities and investments during a given period.



3. OBJECTIVES OF CASH FLOW STATEMENT

1. To show the causes of changes in cash balance between the balance sheet dates.
2. To show the factors contributing to the reduction of cash balance in spite of increasing profit or decreasing profit.

4. USES OF CASH FLOW STATEMENT

1. It explains the reasons for low cash balance.
2. It shows the major sources and uses of cash.
3. It helps in short term financial decisions relating to liquidity.
4. From the past year statements projections can be made for the future.
5. It helps the management in planning the repayment of loans, credit arrangements etc.

5. STEPS IN PREPARING CASH FLOW STATEMENT

1. Opening of accounts for non-current items (to find out the hidden information).
2. Preparation of adjusted P & L Account (to find out cash from operation or profit, and cash utilised in operation or loss).
3. Comparison of current items (to find out inflow or outflow of cash).
4. Preparation of Cash Flow Statement.

To prepare Account for all non-current items is easier for preparing Cash Flow Statement.

Cash from operation can be prepared by this formula also.

$$\text{Net Profit} + \begin{array}{l} \text{Decrease in current assets} \\ \text{Increase in current liabilities} \end{array} - \begin{array}{l} \text{Increase in current assets} \\ \text{Decrease in current liabilities} \end{array}$$

Cash Flow Statement can be prepared in statement form or account form.

A specimen cash flow statement

Account form of cash flow statement is normally followed by all.

Cash Flow Statement

Inflow of Cash		Outflow of Cash	
Opening Cash Balance	xxx	Redemption of Pref. Shares	xxx
Cash from Operation	xxx	Redemption of Debentures	xxx
Sales of Assets	xxx	Repayment of Loans	xxx
Issue of Debentures	xxx	Payment of Dividends	xxx
Raising of Loans	xxx	Pay of Tax	xxx
Collection from Debentures	xxx	Cash Lost in Operations	xxx
Refund of Tax	xxx		
	xxx		xxx

Cash from operation can be calculated in two ways

1. Cash Sales Method

$$\text{Cash Sales} - (\text{Cash Purchases} + \text{Cash Operation Expenses})$$

2. Net Profit Method

It can be prepared in statement form or by Adjusted Profit and Loss Account.

Self-Assessment Questions -1

State whether the following statements are **True or False**:

1. Cash flow statement reveals the inflow and outflow of cash during a particular period.
2. Cash Flow Statement is always prepared in statement form.
3. Cash Flow Statement explains the reasons for low cash balance.
4. Cash Flow Statement helps in short term financial decisions relating to liquidity.



6. DIFFERENCE BETWEEN CASH AND FUND FLOW STATEMENT

	Cash Flow Statement	Fund Flow Statement
01	Cash flow statement takes into consideration only the changes in cash position between two Balance Sheet	Fund flow statement is concerned with changes in working capital, position between two balance sheets dates.
02	Cash from operation is calculated only by actual receipt and payment	Fund from operation is calculated by Adjusted Profit and Loss Account
03	It is more useful to management as a tool of financial analysis	It is not more useful than cash flow statement
04	Whether there is inflow of cash there will be definitely be inflow of funds	Sound fund position does not necessarily mean sound cash position
05	Increase in current liabilities or decrease in current assets will increase in cash and vice versa	Increase in current liabilities or decrease in current assets will mean decrease in working capital

7. COMPUTATION OF CASH FROM OPERATIONS (PROBLEMS)

Illustration 1

From the following balances you are required to calculate cash from operations

	December '31	
	2005	2006
	Rs.	Rs.
Debtors	50,000	47,000
Bills Receivable	10,000	12,500
Creditors	20,000	25,000
Bills Payable	8,000	6,000
Outstanding Expenses	1,000	1,200
Prepaid Expenses	800	700
Accrued Income	600	750
Income received in advance	300	250
Profit made during the year	-	1,30,000

Solution:

Cash from Operation

Profit made during the year		1,30,000
<i>Add:</i> Decrease in Debtors	3,000	
Increase in Creditors	5,000	
Increase in Outstanding Expenses	200	
Decrease in Prepaid Expenses	100	8,300
		1,38,300
<i>Less:</i> Increase in Bills Receivable	2,500	
Decrease in Bills Payable	2,000	
Increase in Accrued Income	150	
Decrease in Income received in advance	50	4,700
Cash from Operation		<u>1,33,600</u>

Illustration 2

Following are the summarized balance sheets of Thomson as on 31st December 2005 and 2006:

Liabilities	2005	2006	Assets	2005	2006
Share Capital	1,00,000	1,30,000	Land	1,00,000	95,000
General Reserve	25,000	30,000	Machinery	75,000	84,500
P & L A/c	15,200	15,400	Stock	50,000	37,000
Bank Loan (Long term)	35,000	-	Debtors	40,000	32,100
Creditors	75,000	67,500	Cash	200	300
Provision for Tax	15,000	17,500	Bank	-	4,000
			Goodwill	-	7,500
Total	2,65,200	2,60,400		2,65,200	2,60,400

Adjustments

- Dividend of Rs. 11,500 was paid.
- Assets of another Company were purchased for a consideration of Rs. 30,000 payable in shares. The following assets were purchased
(a) stock Rs. 10,000, (b) Machinery Rs. 12,500.
- Machinery was further purchased for Rs. 4,000.
- Income tax paid Rs. 16,500 for the year.
- Depreciation written-off in Machinery Rs. 6,000.
- Loss on sale of machine Rs. 100 was written-off to General Reserve. Prepare Cash flow statement.

Solution:**Step – 1: Account for Non-Current Items**

Share Capital A/c

To Balance C/d	1,30,000	By Balance b/d	1,00,000
		By Stock	10,000
		By Machinery	12,500
		By Goodwill	7,500
	1,30,000		1,30,000

General Reserve A/c

To Machinery A/c	100	By Balance b/d	25,000
To Balance C/d	30,000	By Ad P & L A/c (Bal.)	5,100
	30,100		30,100

Provision for Tax A/c

To Bank (Tax Paid) (8)	16,500	By Balance b/d	15,000
To Balance C/d	17,500	By Ad P & L A/c (Bal.)	19,000
	34,000		34,000

Bank Loan A/c

To Balance (Paid) (11)	35,000	By Balance b/d	35,000
	35,000		35,000

Machinery A/c

To Balance b/d	75,000	By Depreciation (Ad P & L)	6,000
To Share Capital	12,500	By General Reserve (Loss on Sales)	100
To Cash Purchases (7)	4,000	By Cash (Sale of Machinery)	900
		By Balance c/d	84,500
	91,500		91,500

Land A/c

To Balance c/d	1,00,000	By Ad P L A/c (Balance)	5,000
		By Balance b/d	95,000
	1,00,000		1,00,000

Adjusted P & L A/c

To Dep. of Machinery	6,000	By Balance b/d	15,200
To Dep. of Land	5,000	By Cash from operation (Bal.) (2)	46,800
To General Reserve	5,100		
To Prov. For Tax	19,000		
To Div. Paid	11,500		
To Balance c/d	15,400		
	62,000		62,000

Step - III: Comparison of Current Items

Stock	50,000	-	37,000	=	13,000	.....	(5)
Debtors	40,000	-	32,100	=	7,900	.....	(6)
Creditors	75,000	-	67,500	=	7,500	.....	(10)
Payment of Dividend Rs. 11,500 given in adjustment						.....	(9)
Sale of Machinery Rs. 900						.....	(4)
Opening Cash Balance Rs. 200						.....	(2)
Closing Cash & Bank Balance Rs. 4,300						.....	(12)

Step – IV**Cash Flow Statement**

Opening Cash (1)	200	Purchase of Machinery (7)	4,000
Cash from Operation (2)	46,800	Payment of Tax (8)	16,500
Issue of Shares (Stock) (3)	10,000	Payment of Dividend (9)	11,500
Sales of Machinery (4)	900	Decrease in Creditors (10)	7,500
Decrease in Stock (5)	13,000	Repayment of Loan (11)	35,000
Decrease in Debtors (6)	7,900	Closing balance of Cash & Bank (12)	4,300
	78,800		78,800

Illustration 3

The following details are available for a Company prepare, cash flow statement.

Assets	Previous Year	Current Year
Cash	9,000	7,800
Debtors	14,900	17,700
Stock	49,200	42,700
Land	20,000	30,000
Goodwill	10,000	5,000
	1,03,100	1,03,200

Liabilities

Share Capital	70,000	74,000
Debentures	12,000	6,000
Reserve for Bad & Doubtful Debts	700	800
Trade Creditors	10,360	11,840
P & L A/c	10,040	10,560
	1,03,100	1,03,200

Additional Information

Dividend paid Rs. 3,500. Debentures paid-off Rs. 6,000, Land was purchased for Rs. 10,000. Amount provided for Goodwill written-off Rs. 5,000.

Solution**Step 1: A/c for Non-current Items****Land A/c**

To Balance b/d	20,000	By Balance c/d	30,000
To Cash Paid	10,000		
(Balance) (1)			
	30,000		30,000

Share Capital

To Balance b/d	74,000	By Issue of Shares	4,000
		(Balance) (2)	
		By Balance c/d	70,000
	74,000		74,000

Debentures A/c

To Cash (Balance) (3)	6,000	By Balance b/d	12,000
To Balance c/d	6,000		
	12,000		12,000

Goodwill A/c

To Balance b/d	10,000	By Balance c/d	5,000
		By Adj P & L	5,000
		(Written-off)	
	10,000		10,000

Adjusted P & L A/c

To Dividend Paid	3,500	By Balance b/d	10,040
To Goodwill written off	5,000	By CFO (Balance) (5)	9,120
To Reserve for bad debts	100		
To Balance c/d	10,560		
	19,160		19,160

Cash Flow Statement for the Current Year

Inflow		Outflow	
Opening Cash	9,000	Purchase of land (1)	10,000
Issue of Share Capital (2)	4,000	Increase in Drs. (8)	2,800
Increasing Crs. (6)	1,480	Debentures Redemption (3)	6,000
Decrease in Stock (7)	6,500	Dividend Paid (4)	3,500
Cash from operation (5)	9,120	Closing Cash	7,800
	30,100		30,100

(4) Given in adjustment

(6, 7, 8) Comparison of current items.

Illustration 4

From the following balance sheets of Joy Ltd., prepare cash flow statement:

Liabilities

Particulars	Previous Year	Current Year
Equity Share Capital	3,00,000	4,00,000
8% Redeemable Pref. Share Capital	1,50,000	1,00,000
General Reserve	40,000	70,000
P & L A/c	30,000	48,000
Proposed Dividend	42,000	50,000
Creditors	55,000	83,000
Bills Payable	20,000	16,000
Provision for Taxation	40,000	50,000
	6,77,000	8,17,000

Assets

Particulars	Previous Year	Current Year
Goodwill	1,15,000	90,000
Building	2,00,000	1,70,000
Plant	80,000	2,00,000
Debtors	1,60,000	2,00,000
Stock	77,000	1,09,000
Bills Receivable	20,000	30,000
Cash	15,000	10,000
Bank	10,000	8,000
	6,77,000	8,17,000

Additional information:

- (A) Depreciation of Rs. 10,000 and Rs. 20,000 have been charged on Plant and buildings during the current year.
- (B) An interim dividend of Rs. 20,000 has been paid during the current year.
- (C) Rs. 35,000 was paid during the current year for income tax.

Solution**Step – I: A/c for Non-current Items****Buildings A/c**

	Rs.		Rs.
To Balance b/d	2,00,000	By Depreciation (Ad P & L)	20,000
		By Cash (Sales) (Bal.) (4) By	10,000
		Balance c/d	1,70,000
	2,00,000		2,00,000

Plant A/c

	Rs.		Rs.
To Balance b/d	80,000	By Depreciation (Ad P & L)	10,000
To Cash (Purchase) (7)	1,30,000	By Balance c/d	2,00,000
	2,10,000		2,10,000

Equity Share Capital A/c

	Rs.		Rs.
To Balance c/d	4,00,000	By Balance b/d	3,00,000
		By Issue of Shares (2)	1,00,000
	4,00,000		4,00,000

Pref. Share Capital A/c

	Rs.		Rs.
To Redemption (Bal) (6) To	50,000	By Balance b/d	1,50,000
Balance c/d	1,00,000		
	1,50,000		1,50,000

Provision for Taxation A/c

	Rs.		Rs.
To Cash (Tax paid) (10) To	35,000	By Balance b/d By Balance	40,000
Balance c/d	50,000	(Ad. P & L A/c)	45,000
	85,000		85,000

Adjusted P & L A/c

	Rs.		Rs.
To Depreciation on Plant	10,000	By Balance b/d	30,000
To Depreciation on Buildings	20,000	By CFO (Balance) (3)	2,18,000
To Goodwill write-off	25,000		
To Provision for Tax	45,000		
To Interim Dividend	20,000		
To proposed Dividend (Current Year)	50,000		
To General Reserve	30,000		
To Balance C/d	48,000		
	2,48,000		2,48,000

Step – III**Comparison of Current Items**

Debtors	$1,60,000 - 2,00,000 = + 40,000$	--	(11)
Stock	$77,000 - 1,09,000 = + 32,000$	--	(12)
Bills Receivable	$20,000 - 30,000 = - 10,000$	--	(13)
Opening Cash & Bank	$15,000 + 10,000 = 25,000$	--	(1)
Closing Cash	$10,000 + 8,000 = 18,000$	--	(15)
Creditors	$55,000 - 83,000 = - 28,000$	--	(5)
Bills Payable	$20,000 - 16,000 = + 4,000$	--	(14)
Interim dividend paid	$= 20,000$	--	(8)
Previous year dividend paid	$= 42,000$	--	(9)

Step – IV**Cash Flow Statement**

Inflow	Rs.	Outflow	Rs.
Opening Cash & Bank (1)	25,000	Redemption of Pr. Shares (6)	50,000
Issue of Equity Share Capital (2)	1,00,000	Purchase of Plant (7)	1,30,000
Cash from Operation (3)	2,18,000	Payment of Interim Dividend (8)	20,000
Sale of Buildings (4)	10,000	Payment of Proposed Dividend (Previous Year) (9)	42,000
Increase in Creditors (5)	28,000	Payment of Tax (10)	35,000
		Increase in Debtors (11) Increase	40,000
		in Stock (12) Increase in B/R (13)	32,000
		Decrease in B/P (14)	10,000
		Closing Cash & Bank (15)	4,000
			18,000
	3,81,000		3,81,000

Illustration 5

Statement of the financial position of Mr. Kumar are given below:

	1-7-2006	31-12-2006
Liabilities		
Accounts Payable	2,900	2,500
Capital	73,900	61,500
	76,800	64,000
Assets:		
Cash	4,000	3,000
Debtors	2,000	1,700
Stock	800	1,300
Buildings	10,000	8,000
Other Fixed Assets	60,000	50,000
	76,800	64,000

(a) There were no drawings.

(b) There were no purchases or sales of either buildings or other fixed

Assets. Prepare Cash Flow Statement.

Buildings Account

	Rs.		Rs.
To Balance b/d	10,000	By Depreciation (Ad P & L A/c)	2,000
		By Balance c/d	8,000
	10,000		10,000

Fixed Assets A/c

	Rs.		Rs.
To Balance b/d	60,000	By Balance c/d By Depreciation (Ad P & L A/c)	50,000 10,000
	60,000		60,000

Capital A/c

	Rs.		Rs.
To Net Loss (Bal) (Ad P&L)	12,400	By Balance b/d	73,900
To Balance c/d	61,500		
	73,900		73,900

Adjusted Profit & Loss A/c

	Rs.		Rs.
To Depreciation on Buildings	2,000	By Net Loss	12,400
To Depreciation on other Fixed Assets	10,000	(Capital A/c)	
To cash Trading Loss	400		
	12,400		12,400

Cash Flow Statement

Inflow	Rs.	Outflow	Rs.
Opening Cash	4,000	Decrease in A/c/s	400
Decrease in Debtors	300	Increase in Stock	500
		Cash Trading Loss	400
		Closing Cash	3,000
	4,300		4,300

(1) and (6) given in the sum: Comparison of current items:

Debtors $2,000 - 1,700 = 300$ Decrease Inflow

Stock $8,000 - 13,000 = 500$ Increase Outflow

A/c Payable $2,000 - 2,500 = 400$ Decrease Outflow

Illustration 6

From the following particulars prepare Cash Flow Statements.

Liabilities:	1st Jan.	31st Dec.
Creditors	36,000	41,000
Mr. A's Loan	–	20,000
Capital	1,48,000	1,49,000
Bank Loan	30,000	25,000
	2,14,000	2,35,000
Assets:		
Cash	4,000	3,600
Debtors	35,000	38,400
Stock	25,000	22,000
Land	20,000	30,000
Buildings	50,000	55,000
Machinery	80,000	86,000
	2,14,000	2,35,000

During the year Mr. A (Proprietor) had drawn Rs. 26,000 for personal use. The provision for depreciation against machinery as on 1st January was Rs. 27,000 and as on 31st December Rs. 36,000.

Step – I**A/c for Non-current Items****Land A/c**

	Rs.		Rs.
To Balance b/d	20,000	By Balance b/d	30,000
To Cash Purchase (Balance) (7)	10,000		
	30,000		30,000

Building A/c

	Rs.		Rs.
To Balance b/d	50,000	By Balance b/d	55,000
To Cash Purchases (Balance) (8)	5,000		
	55,000		55,000

Machinery A/c

	Rs.		Rs.
To Balance b/d (80,000 + 27,000)	1,07,000	By Balance b/d (86,000 + 36,000)	1,22,000
To Cash Purchases (Balance) (9)	15,000		
	1,22,000		1,22,000

Capital A/c

	Rs.		Rs.
To Drawings (10)	26,000	By Balance b/d	1,48,000
To Balance c/d	1,49,000	By Net Profit (Bal.) 27,000 (Transferred to Ad). P & L A/c)	
	1,75,000		1,75,000

Step – II**Adjusted P & L A/c**

	Rs.		Rs.
To Provision for Depreciation (36,000 – 27,000)	9,000	By CFO (3)	36,000
To Net Profit (Capital A/c)	27,000		
	36,000		36,000

Step – III**Comparison of Current Items**

Creditors	36,000	–	41,000	=	5,000	Increase (4)
A's Loan	20,000			=	20,000	Increase (2)
Bank Loan	30,000	–	25,000	=	5,000	Decrease (1)
Debtors	35,000	–	38,400	=	3,400	Increase (11)
Stock	25,000	–	22,000	=	3,000	Decrease (5)

Step – IV**Cash flow statement**

Inflow	Rs.	Outflow	Rs.
Opening Cash (1)	4,000	Repayment of Bank Loan (6)	5,000
Loan from A (2)	20,000	Purchase of Land (7)	10,000
Cash from Operation (3)	36,000	Purchase of Building (8)	5,000
Increase in Creditors (4)	5,000	Purchase of Machinery (9)	15,000
Decrease in Stock (5)	3,000	Drawing (10)	26,000
		Increase in Debtors (11)	3,400
		Closing Cash (12)	3,600
	68,000		68,000

Note: 10, 11 and 12 are given in problem.

8. SUMMARY

- Cash flow statement reveals the inflow and outflow of cash during a particular period.
- It is prepared on the basis of historical data showing the inflow and outflow of cash.
- It is an important tool of cash planning and control.
- Cash from operation can be calculated in two ways

1. Cash Sales Method:

Cash Sales – (Cash Purchases + Cash Operation Expenses)

2. Net Profit Method:

It can be prepared in statement form or by Adjusted Profit and Loss Account.

- Uses of CFS:
 - It explains the reasons for low cash balance.
 - It shows the major sources and uses of cash.
 - It helps in short term financial decisions relating to liquidity.
 - It helps the management in planning the repayment of loans, credit arrangements etc.

9. TERMINAL QUESTIONS

1. What are the objectives of a Cash Flow Statement?
2. Mention the steps involved in the preparation of a Cash Flow Statement.
3. Distinguish between Cash Flow Statement and Fund Flow Statement.
4. The following are the summarized Balance Sheet of M/s. NIDHI Ltd. as on 31st December, 2005 and 2006.

	2005 Rs.	2006 Rs.
Liabilities		
Share Capital	2,00,000	2,50,000
General Reserve	50,000	60,000
Profit and Loss A/c	30,500	30,600
Bank Loan (Long-term)	70,000	-
Sundry Creditors	1,50,000	1,35,200
Provision for Taxation	30,000	35,000
	<u>5,30,500</u>	<u>5,10,800</u>
Assets		
Land and Building	2,00,000	1,90,000
Machinery	1,50,000	1,69,000
Stock	1,00,000	74,000
Sundry Debtors	80,000	64,200
Cash	500	500
Bank	-	8,000
Goodwill	-	5,000
	<u>5,30,500</u>	<u>5,10,800</u>

Additional Information:

- 1) Loss on sale on machinery Rs. 200 was written-off to General Reserve.
- 2) Income-tax provided during the year Rs. 33,000.
- 3) Depreciation written-off on machinery Rs. 12,000.
- 4) Machinery was further purchased for Rs. 8,000.
- 5) Assets of another Company were purchased for a consideration of Rs. 50,000 payable in shares. The following assets were purchased were purchased. Stock Rs. 20,000, Machinery Rs. 25,000.
- 6) Dividend of Rs. 23,000 was paid. Prepare the Cash Flow Statement.

5. The following is the summary of annual accounts of Meet Computers Ltd., for the two years 2005 and 2006.

Comparative Balance Sheets

Liabilities	2005	2006	Assets	2005	2006
	Rs.	Rs.		Rs.	Rs.
Notes Payable	20,000	–	Marketable Securities	5,000	3,000
Bills Payable	5,000	8,000	Cash	10,000	15,000
Accrued Taxes	3,000	5,000	Bills Receivables		
Accrued Wages	2,000	2,000	Inventory	12,000	15,000
Long-term Loan	–	15,000	Fixed Assets	50,000	55,000
Shareholders Fund	60,000	70,000	Other Assets	8,000	5,000
	90,000	1,00,000		90,000	1,00,000

Profit and Loss Account for the year ending Dec. 31, 2006

	Rs.	Rs.
Net Sales		
Expenses		50,000
– Cost of Goods Sold	25,000	
– Selling and Admn. Expenses	5,000	
– Depreciation	5,000	
– Interest	1,000	
		<u>36,000</u>
Net profit before tax		14,000
Less: Income Tax (50%)		<u>7,000</u>
Net profit after tax		7,000
Add: Profit and Loss A/c on 1-1-2006		<u>40,000</u>
		47,000
Less: Dividend		<u>3,000</u>
Profit and Loss Balance as on 31-12-2006		44,000

Prepare the Cash Flow Statement.

6. Parimala has submitted the following Balance Sheets on 31st March, 2006 and 2007.

Liabilities	2006 Rs.	2007 Rs.	Assets	2006 Rs.	2007 Rs.
Share Capital in Equity Shares of Rs. 100 each	2,99,000	3,36,000	Goodwill	50,000	25,000
Debentures	60,000	30,000	Land & Build.	1,00,000	1,50,000
Creditors	52,500	55,000	Stock	2,00,000	1,75,000
Reserve for Doubtful Debts	3,500	4,000	Sundry Debtors	70,000	90,000
Profit & Loss A/c	50,000	55,000	Cash	45,000	40,000
	4,65,000	4,80,000		4,65,000	4,80,000

Additional Information:

- (1) No depreciation is charged on Land and Buildings.
- (2) Dividend was paid Rs. 15,000 and Tax Paid amounted to Rs. 10,000 Prepare a Cash Flow Statement.

7. From the following Balance Sheet of DRINKS Ltd. Make out a Cash Flow Statement.

Liabilities	2006 Rs.	2007 Rs.	Assets	2006 Rs.	2007 Rs.
Equity Share Capital	3,00,000	40,00,000	Goodwill	1,00,000	80,000
8% Redeemable Preference Shares	1,50,000	1,00,000	Land & Buildg.	2,00,000	1,70,000
Capital Reserve			Plant	80,000	2,00,000
Profit & Loss A/c	-	20,000	Sundry Debtors	1,40,000	1,70,000
General Reserve	30,000	48,000	Stock	77,000	1,09,000
Sundry Creditors	40,000	50,000	Bills Receivable	20,000	30,000
Bills Payable	25,000	47,000	Investments	20,000	30,000
Proposed Dividend	20,000	16,000	Cash in Hand	15,000	10,000
Liability for Expenses	42,000	50,000	Cash at Bank	10,000	8,000
Provision for Taxation	30,000	36,000	Preliminary Expenses	15,000	10,000
	40,000	50,000			
	6,77,000	8,17,000		6,77,000	8,17,000

Additional Information is as follows:

- a) A piece of land had been sold out in 2007 and the profit on sale has been credited to Capital Reserve.
- b) A machine has been sold for Rs. 10,000. The WDV of the machine was Rs. 12,000. Depreciation of Rs. 10,000 is charged on Plant Account in 2007.
- c) The investments are Trade Investments. Rs. 3,000 by way of dividend is received including Rs. 1,000 from pre-acquisition profit which has been credited to Investment Account.
- d) An interim dividend of Rs. 20,000 has been paid in 2007.
- e) Proposed dividend for 2006 was paid in 2007.

10. ANSWERS**Answers to SAQs:****Self Assessment Questions**

1. True
2. False
3. True
4. True

Terminal Questions

1. Refer to 3
2. Refer to 5
3. Refer to 6
4. Refer to 7
5. Refer to 7
6. Refer to 7
7. Refer to 7