



Q5. STATE THE MEANING OF THE TERMS:

1. CASH EQUIVALENTS
2. CASH FLOWS.

SOLUTION:

CASH EQUIVALENTS ARE SHORT-TERM LIQUID INVESTMENTS WHICH ARE EASILY CONVERTIBLE INTO CASH. THEY ARE SUBJECT TO AN INSIGNIFICANT RISK OF CHANGE IN VALUE. THEY ARE HELD FOR THE PURPOSE OF MEETING SHORT-TERM CASH COMMITMENTS. AN INVESTMENT HELD FOR SHORT-TERM MATURITY, SAY FOUR MONTHS, CAN BE CONSIDERED AS CASH EQUIVALENT. EXAMPLES OF CASH EQUIVALENTS ARE TREASURY BILLS AND COMMERCIAL PAPERS. ON THE OTHER HAND, CASH FLOWS ARE INFLOWS AND OUTFLOWS OF CASH AND CASH EQUIVALENTS. TOTAL CASH BALANCE INCREASES WHEN THERE IS CASH INFLOW AND DECREASES WHEN THERE IS CASH OUTFLOW.

Q6. Prepare a format of cash flow from operating activities under indirect method.

Format of cash flow from operating activities:

Indirect Method		
Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items		***
Add: Non-Cash Expenses and Non-Operating Expenses		
Depreciation	**	
Goodwill	**	
Interest Paid	**	
Loss on Sale of Fixed Assets	**	
Foreign Exchange	**	**
Less: Non-Operating Incomes		
Dividend Received	(**)	
Profit on Sale of Fixed Assets	(**)	
Interest Received	(**)	(**)
Operating Profit before Working Capital Changes		***
Add: Decrease in Current Assets	***	
Increase in Current Liabilities	***	***
Less: Increase in Current Assets	(***)	
Decrease in Current Liabilities	(***)	(***)
Cash Generated from Operating Activities		***
Income Tax Paid		(***)
Cash Flow before Extraordinary Items		***
Add/Less: Extraordinary Items		***
Net Cash Flow from Operating Activities		***

***** END *****