Cash Flow Statement

6

Learning Objectives

After studying this chapter, you will be able to :

- *state the purpose and preparation of statement of cash flow statement;*
- *distinguish between operating activities, investing activities and financing activities;*
- *prepare the statement of cash flows using direct method;*
- *prepare the cash flow statement using indirect method.*

Till now you have learnt about the financial statements being primarily inclusive of Position Statement (showing the financial position of an enterprise as on a particular date) and Income Statement (showing the result of the operational activities of an enterprise over a particular period). There is also a third important financial statement known as *Cash flow statement,* which shows inflows and outflows of the cash and cash equivalents. This statement is usually prepared by companies which comes as a tool in the hands of users of financial information to know about the sources and uses of cash and cash equivalents of an enterprise over a period of time from various activities o*f an enterprise.* It has gained substantial importance in the last decade because of its practical utility to the users of financial information.

Accounting Standard-3 (AS-3), issued by The Institute of Chartered Accountants of India (ICAI) in June 1981, which dealt with a statement showing 'Changes in Financial Position', (Fund Flow Statement), has been revised and now deals with the preparation and presentation of Cash flow statement. The revised AS-3 has made it mandatory for all listed companies to prepare and present a cash flow statement along with other financial statements on annual basis. Hence, it may be noted, that Fund Flow statement is no more considered relevant in accounting and so not discussed here.

A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing and financing activities. It requires that an enterprise should prepare a cash flow statement and should present it for each accounting period for which financial statements are presented. This chapter discusses this technique and explains the method of preparing a cash flow statement for an accounting period.

6.1 Objectives of Cash Flow Statement

A Cash flow statement shows inflow and outflow of cash and cash equivalents from various activities of a company during a specific period. The primary objective of cash flow statement is to provide useful information about cash flows (inflows and outflows) of an enterprise during a particular period under various heads, i.e., operating activities, investing activities and financing activities.

This information is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation.

6.2 Benefits of Cash Flow Statement

Cash flow statement provides the following benefits :

- A cash flow statement when used along with other financial statements provides information that enables users to evaluate changes in net assets of an enterprise, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timings of cash flows in order to adapt to changing circumstances and opportunities.
- Cash flow information is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises.
- It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.
- It also helps in balancing its cash inflow and cash outflow, keeping in response to changing condition. It is also helpful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and impact of changing prices.

6.3 Cash and Cash Equivalents

As stated earlier, cash flow statement shows inflows and outflows of cash and cash equivalents from various activities of an enterprise during a particular period. As per AS-3, 'Cash' comprises cash in hand and demand deposits with banks, and 'Cash equivalents' means short-term highly liquid investments that are readily convertible into known amounts *of cash and which are subj*ect to an insignificant risk of changes in value. An investment normally qualifies as cash equivalents only when it has a short maturity, of say, three months or less from the date of acquisition. Investments in shares are excluded from cash equivalents unless they are in substantial cash equivalents. For example, preference shares of a company acquired shortly before their specific redemption date, provided there is only insignificant risk of failure of the company to repay the amount at maturity. Similarly, short-term marketable securities which can be readily converted into cash are treated as cash equivalents and is liquidable immediately without considerable change in value.

6.4 Cash Flows

'Cash Flows' implies movement of cash in and out due to some non-cash items. Receipt of cash from a non-cash item is termed as cash inflow while cash payment in respect of such items as cash outflow. For example, purchase of machinery by paying cash is cash outflow while sale proceeds received from sale of machinery is cash inflow. Other examples of cash flows include collection of cash from trade receivables, payment to trade payables, payment to employees, receipt of dividend, interest payments, etc.

Cash management includes the investment of excess cash in cash equivalents. Hence, purchase of marketable securities or short-term investment which constitutes cash equivalents is not considered while preparing cash flow statement.

6.5 Classification of Activities for the Preparation of Cash Flow Statement

You know that various activities of an enterprise result into cash flows (inflows or receipts and outflows or payments) which is the subject matter of a cash flow statement. As per AS-3, these activities are to be classified into three categories: (1) operating, (2) investing, and (3) financing activities so as to show separately the cash flows generated (or used) by (in) these activities. This helps the users of cash flow statement to assess the impact of these activities on the financial position of an enterprise and also on its cash and cash equivalents.

6.5.1 Cash from Operating Activities

Operating activities are the activities that constitute the primary or main activities of an enterprise. For example, for a company manufacturing garments, operating activities are procurement of raw material, incurrence of manufacturing expenses, sale of garments, etc. These are the principal revenue generating activities (or the main activities) of the enterprise and these activities are not investing or financing activities. The amount of cash from operations' indicates the internal solvency level of the company, and is regarded as the key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to maintain the operating capability of the enterprise, paying dividends, making of new investments and repaying of loans without recourse to external source of financing.

Cash flows from operating activities are primarily derived from the main activities of the enterprise. They generally result from the transactions and other events that enter into the determination of net profit or loss. Examples of cash flows from operating activities are:

Cash Inflows from operating activities

- cash receipts from sale of goods and the rendering of services.
- cash receipts from royalties, fees, commissions and other revenues.

Cash Outflows from operating activities

- Cash payments to suppliers for goods and services.
- Cash payments to and on behalf of the employees.
- Cash payments to an insurance enterprise for premiums and claims, annuities, and other policy benefits.
- Cash payments of income taxes unless they can be specifically identified with financing and investing activities.

The net position is shown in case of operating cash flows.

An enterprise may hold securities and loans for dealing or for trading purposes. In either case they represent Inventory specifically held for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial enterprises are usually classified as operating activities since they relate to main activity of that enterprise.

6.5.2 Cash from Investing Activities

As per AS-3, investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Investing activities relate to purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, etc. Transactions related to long-term investment are also investing activities.

Separate disclosure of cash flows from investing activities is important because they represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

Cash Outflows from investing activities

- Cash payments to acquire fixed assets including intangibles and capitalised research and development.
- Cash payments to acquire shares, warrants or debt instruments of other enterprises other than the instruments those held for trading purposes.
- Cash advances and loans made to third party (other than advances and loans made by a financial enterprise wherein it is operating activities).

Cash Inflows from Investing Activities

- Cash receipt from disposal of fixed assets including intangibles.
- Cash receipt from the repayment of advances or loans made to third parties (except in case of financial enterprise).
- Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes.
- Interest received in cash from loans and advances.
- Dividend received from investments in other enterprises.

6.5.3 Cash from Financing Activities

As the name suggests, financing activities relate to long-term funds or capital of an enterprise, e.g., cash proceeds from issue of equity shares, debentures, raising long-term bank loans, repayment of bank loan, etc. As per AS-3, financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in case of a company) and borrowings of the enterprise. Separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings) to the enterprise. Examples of financing activities are:

Cash Inflows from financing activities

- Cash proceeds from issuing shares (equity or/and preference).
- Cash proceeds from issuing debentures, loans, bonds and other short/long-term borrowings.

Cash Outflows from financing activities

- Cash repayments of amounts borrowed.
- Interest paid on debentures and long-term loans and advances.
- Dividends paid on equity and preference capital.

It is important to mention here that a transaction may include cash flows that are classified differently. For example, when the instalment paid in respect of a fixed asset acquired on deferred payment basis includes both interest and loan, the interest element is classified under financing activities and the loan element is classified under investing activities. Moreover, same activity may be classified differently for different enterprises. For example, purchase of shares is an operating activity for a share brokerage firm while it is investing activity in case of other enterprises.

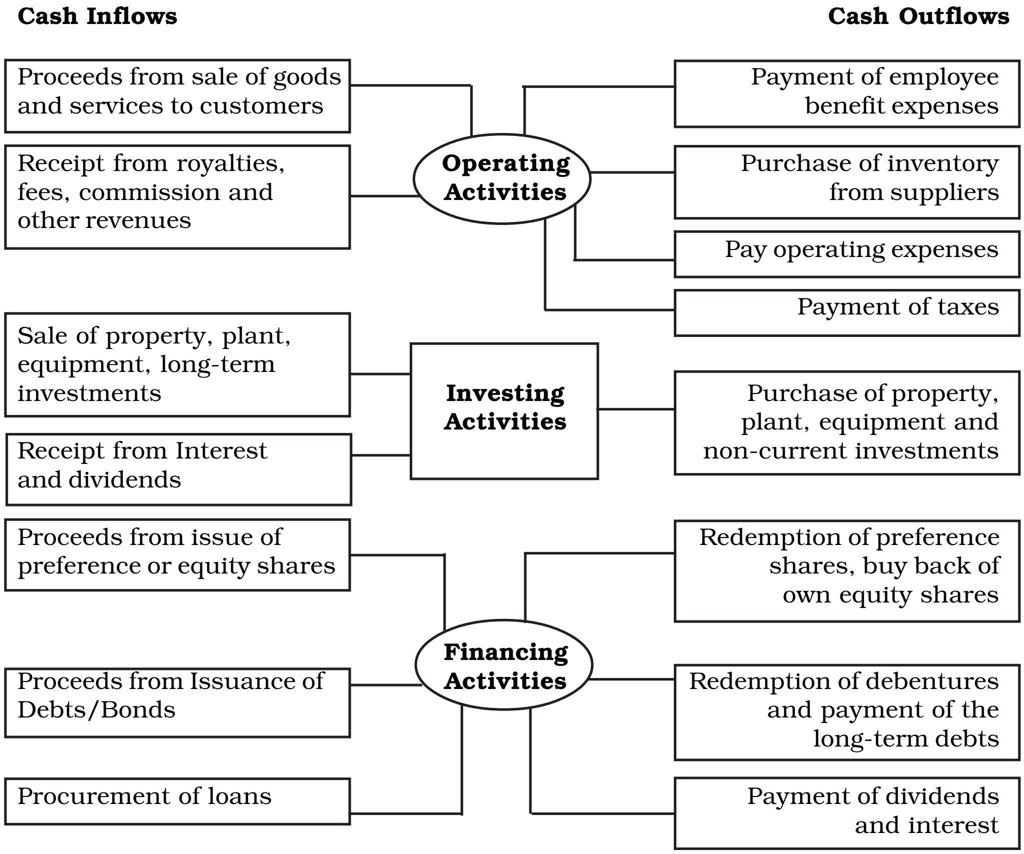

Exhibit 6.1: *Classification of Cash inflows and Cash Outflows Activities*

6.5.4 Treatment of Some Peculiar Items

Extraordinary items

Extraordinary items are not the regular phenomenon, e.g., loss due to theft or earthquake or flood. Extraordinary items are non-recurring in nature and hence cash flows associated with extraordinary items should be classified and disclosed separately as arising from operating, investing or financing activities. This is done to enable users to understand their nature and effect on the present and future cash flows of an enterprise.

Interest and Dividend

In case of a financial enterprise (whose main business is lending and borrowing), interest paid, interest received and dividend received are classified as operating activities while dividend paid is a financing activity.

In case of a non-financial enterprise, as per AS-3, it is considered more appropriate that payment of interest and dividends are classified as financing activities whereas receipt of interest and dividends are classified as investing activities.

Taxes on Income and Gains

Taxes may be income tax (tax on normal profit), capital gains tax (tax on capital profits), dividend tax (tax on the amount distributed as dividend to shareholders). AS-3 requires that cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. This clearly implies that:

- tax on operating profit should be classified as operating cash flows.
- dividend tax, i.e., tax paid on dividend should be classified as financing activity along with dividend paid.
- Capital gains tax paid on sale of fixed assets should be classified under investing activities.

Non-cash Transactions

As per AS-3, investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Examples of such transactions are – acquisition of machinery by issue of equity shares or redemption of debentures by issue of equity shares. Such transactions should be disclosed elsewhere in the financial statements in a way that provide all the relevant information about these investing and financing activities. Hence, assets acquired by issue of shares are not disclosed in cash flow statement due to non-cash nature of the transaction.

With these three classifications, Cash Flow Statement is shown in Exhibit 6.2.

Cash Flow Statement
(Main heads only)

(A) Cash flows from operating activities	xxx
(B) Cash flows from investing activities	xxx
(C) Cash flows from financing activities	xxx
Net increase (decrease) in cash and cash equivalents (A + B + C)	xxx
+ Cash and cash equivalents at the beginning	xxx
= Cash and cash equivalents at the end	xxxx

Exhibit 6.2 : *Sharing Specimen Cash Flow Statement*

Test your Understanding - I

Classify the following activities into operating activities, investing activities, financing activities, cash equivalents.

1.	Purchase of machinery.	2.	Proceeds from issuance of equity share capital.
3.	Cash revenue from operations.	4.	Proceeds from long-term borrowings.
5.	Proceeds from sale of old machinery.	6.	Cash receipt from trade receivables.
7.	Trading commission received.	8.	Purchase of non-current investment.
9.	Redemption of preference shares.	10.	Cash purchases.
11.	Proceeds from sale of non-current investment.	12.	Purchase of goodwill.
13.	Cash paid to supplier.	14.	Interim dividend paid on equity shares.
15.	Employee benefits expenses paid.	16.	Proceeds from sale of patents.
17.	Interest received on debentures held as investments.	18.	Interest paid on long-term borrowings.
19.	Office and administrative expenses paid.	20.	Manufacturing overheads paid.
21.	Dividend received on shares held as investment.	22.	Rent received on property held as investment.
23.	Selling and distribution expenses paid.	24.	Income tax paid.
25.	Dividend paid on preferences shares.	26.	Under-writing commission paid.
27.	Rent paid.	28.	Brokerage paid on purchase of non-current investment.
29.	Bank overdraft.		
30.	Cash credit.	31.	Short-term deposit.
32.	Marketable securities.	33.	Refund of income-tax received.

6.6 Ascertaining Cash Flow from Operating Activities

Operating activities are the main source of revenue and expenditure in an enterprise. Therefore, the ascertainment of cash flows from operating activities need special attention.

As per AS-3, an enterprise should report cash flows from operating activities either by using :

- Direct method whereby major classes of gross cash receipts and gross cash payments are disclosed;

or

- Indirect method whereby net profit or loss is duly adjusted for the effects of (1) transactions of a non-cash nature, (2) any deferrals or accruals of past/future operating cash receipts, and (3) items of income or expenses associated with investing or financing cash flows. It is important to mention here that under indirect method, the starting point is net profit/ loss before taxation and extra ordinary items as per Statement of Profit and Loss of the enterprise. Then this amount is for non-cash items, etc., adjusted for ascertaining cash flows from operating activities.

Accordingly, cash flow from operating activities can be determined using either the Direct method or the Indirect method. These methods are discussed in detail as follows.

6.6.1 Direct Method

As the name suggests, under direct method, major heads of cash inflows and outflows (such as cash received from trade receivables, employee benefits expenses paid, etc.) are considered.

It is important to note here that items are recorded on accrual basis in statement of profit and loss. Hence, certain adjustments are made to convert them into cash basis such as the following :

1. Cash receipts from customers = Revenue from operations + Trade receivables in the beginning – Trade receivables in the end.
2. Cash payments to suppliers = Purchases + Trade Payables in the beginning – Trade Payables in the end.
3. Purchases = Cost of Revenue from Operations – Opening Inventory + Closing Inventory.
4. Cash expenses = Expenses on accrual basis + Prepaid expenses in the beginning and Outstanding expenses in the end – Prepaid expenses in the end and Outstanding expenses in the beginning.

However, the following items are not to be considered:

1. Non-cash items such as depreciation , discount on shares, etc., be written-off.
2. Items which are classified as investing or financing activities such as interest received, dividend paid, etc.

As per AS-3, under the direct method, information about major classes of gross cash receipts and cash payments may be obtained either–

- from the accounting records of the enterprise, or
- by adjusting revenue from operation, cost of revenue from operations and other items in the statement of profit or loss for the following:
  - changes during the period in inventories and trade receivables and payables;
  - other non-cash items; and
  - other items for which cash effects are investing or financing cash flows.

Exhibit 6.3 shows the proforma of cash flows from operating activities using direct method.

Cash Flows from Operating Activities (Direct Method)

Cash flows from operating activities:		
Cash receipts from customers		xxx
(–)	Cash paid to suppliers and employees	(xxx)
=	Cash generated from operations	**xxx**
(–)	Income tax paid	(xxx)
=	Cash flow before extraordinary items	**xxx**
+/–	Extraordinary items	xxx
=	*Net cash from operating activities*	**xxxx**

Exhibit 6.3 : *Proforma of Cash Flows from Operating Activities*

Illustration 1

From the following information, calculate cash flow from operating activities using direct method.

Statement of Profit and Loss
for the year ended on March 31, 2017

Particulars	Note	Figures for Current reporting period
i) Revenue from operations		2,20,000
ii) Other Income		—
iii) Total revenue (i+ii)		2,20,000
iv) Expenses		
Cost of materials consumed		1,20,000
Employees benefits expenses		30,000
Depreciation		20,000
Other expenses		
Insurance Premium		8,000
Total expenses		1,78,000
v) Profit before tax (iii-iv)		42,000
Less Income tax		(10,000)
vi) Profit after tax		32,000

Additional information:

Particulars	*April 01, 2016* *Rs*	*March 31, 2017* *Rs*
Trade receivables	33,000	36,000
Trade payables	17,000	15,000
Inventory	22,000	27,000
Outstanding employees benefits expenses	2,000	3,000
Prepaid insurance	5,000	5,500
Income tax outstanding	3,000	2,000

Solution:

Cash Flows from Operating Activities

Particulars	*(Rs)*
Cash receipts from customers	2,17,000
Cash Paid to suppliers	(1,27,000)
Cash Paid to employees	(29,000)
Cash Paid for Insurance premium	(8,500)
Cash generated from operations	52,500
Income Tax paid	(11,000)
Net Cash Inflow from Operations	**41,500**

Working Notes:

1. Cash Receipts from Customers is calculated as under :
   Cash Receipts from Customers = Revenue from Operations + Trade Receivables in the beginning – Trade Receivables in the end
   = Rs 2,20,000 + Rs 33,000 – Rs 36,000
   = Rs 2,17,000
2. Purchases = Cost of Revenue from Operations – Opening Inventory + Closing Inventory
   = Rs 1,20,000 – Rs 22,000 + Rs 27,000
   = Rs 1,25,000
3. Cash payment to suppliers = Purchases + Trade Payables in the beginning – Trade Payables in the end
   = Rs 1,25,000 + Rs 17,000 – Rs 15,000
   = Rs 1,27,000
4. Cash Expenses = Expenses on Accrual basis – Prepaid Expenses in the beginning and Outstanding Expenses in the end + Prepaid Expenses in the end and Outstanding Expenses in the beginning
5. Cash Paid to Employees = Rs 30,000 + Rs 2,000 – Rs 3,000
   = Rs 29,000
6. Cash Paid for Insurance Premium = Rs 8,000 – Rs 5,000 + Rs 5,500
   = Rs 8,500
7. Income Tax Paid = Rs 10,000+Rs 3,000 – Rs 2,000
   = Rs 11,000
8. It is important to note here that there are no extraordinary items.

6.6.2 Indirect Method

Indirect method of ascertaining cash flow from operating activities begins with the amount of net profit/loss. This is so because statement of profit and loss incorporates the effects of all operating activities of an enterprise. However, Statement of Profit and Loss is prepared on accrual basis (and not on cash basis). Moreover, it also includes certain non-operating items such as interest paid, profit/loss on sale of fixed assets, etc.) and non-cash items (such as depreciation, goodwill to be written-off, etc.. Therefore, it becomes necessary to adjust the amount of net profit/loss as shown by Statement of Profit and Loss for arriving at cash flows from operating activities. Let us look at the example :

Statement of Profit and Loss Account
for the year ended March 31, 2017

	Particulars	Note	Figures in Rs
i)	Revenue from Operations		1,00,000
ii)	Other Income	1	2,000
iii)	Total Revenues (i+ii)		1,02,000
iv)	Expenses		
	Cost of Materials Consumed		30,000
	Purchases of stock-in-trade		10,000
	Employees Benefits Expenses		10,000
	Finance Costs		5,000
	Depreciation		5,000
	Other Expenses		12,000
			72,000
v)	Profit before Tax (iii-iv)		30,000

Note: Other income includes profit on sale of land.

The above Statement of Profit and Loss shows the amount of net profit of Rs 30,000. This has to be adjusted for arriving cash flows from operating activities. Let us take various items one by one.

1. *Depreciation* is a non-cash item and hence, Rs 5,000 charged as depreciation does not result in any cash flow. Therefore, this amount must be added back to the net profit.
2. *Finance costs* of Rs 5,000 is a cash outflow on account of financing activity. Therefore, this amount must also be added back to net profit while calculating cash flows from operating activities. This amount of finance cost will be shown as an outflow under the head of financing activities.
3. *Other income includes profit on sale of land:* It is cash inflow from investing activity. Hence, this amount must be deducted from the amount of net profit while calculating cash flows from operating activities.

The above example gives you an idea as to how various adjustments are made in the amount of net profit/loss. Other important adjustments relate to changes in working capital which are necessary (i.e., items of current assets and current liabilities) to convert net profit/loss which is based on accrual basis into cash flows from operating activities. Therefore, the increase in current assets and decrease in current liabilities are deducted from the operating profit, and the decrease in current assets and increase in current liabilities are added to the operating profit so as to arrive at the exact amount of net cash flow from operating activities.

As per AS-3, under indirect method, net cash flow from operating activities is determined by adjusting net profit or loss for the effect of :

- Non-cash items such as depreciation, goodwill written-off, provisions, deferred taxes, etc., which are to be added back.
- All other items for which the cash effects are investing or financing cash flows. The treatment of such items depends upon their nature. All investing and financing incomes are to be deducted from the amount of net profits while all such expenses are to be added back. For example, finance cost which is a financing cash outflow is to be added back while other income such as interest received which is investing cash inflow is to be deducted from the amount of net profit.
- Changes in current assets and liabilities during the period. Increase in current assets and decrease in current liabilities are to be deducted while increase in current liabilities and decrease in current assets are to be added up.

Exhibit 6.4 shows the proforma of calculating cash flows from operating activities as per indirect method.

The direct method provides information which is useful in estimating future cash flows. But such information is not available under the indirect method. However, in practice, indirect method is mostly used by the companies for arriving at the net cash flow from operating activities.

Cash Flows from Operating Activities
(Indirect Method)

	Net Profit/Loss before Tax and Extraordinary Items	
+	Deductions already made in Statement of Profit and Loss on account of Non-cash items such as Depreciation, Goodwill to be Written-off.	xxx
+	Deductions already made in Statement of Profit and Loss on Account of Non-operating items such as Interest.	xxx
–	Additions (incomes) made in Statement of Profit and Loss on Account of Non-operating items such as Dividend received, Profit on sale of Fixed Assets.	xxx xxx
	Operating Profit before Working Capital changes	
+	Increase in Current liabilities	xxx
+	Decrease in Current assets	xxx
–	Increase in Current assets	xxx

– Decrease in Current Liabilities	xxx
Cash Flows from Operating Activities before Tax and Extraordinary Items	xxx
– Income Tax Paid	xxx
+/– Effects of Extraordinary Items	xxx
Net Cash from Operating Activities	**xxx**

Exhibit 6.4: *Proforma of Cash Flows from Operating Activities (Indirect Method)*

As stated earlier, while working out the cash flow from operating activities, the starting point is the 'Net profit before tax and extraordinary items' and not the 'Net profit as per Statement of Profit and Loss'. Income tax paid is deducted as the last item to arrive at the net cash flow from operating activities.

Illustration 2

Using the data given in Illustration 1, calculate cash flows from operating activities using indirect method.

Solution:

Cash Flows from Operating Activities

	Particulars	*(Rs)*
	(Net Profit before Taxation and Extraordinary Items (Note 1)	42,000
	Adjustments for–	
+	Depreciation	20,000
=	Operating Profit before working capital changes	62,000
–	Increase in Trade Receivables	(3,000)
–	Increase in Inventories	(5,000)
–	Increase in Prepaid Insurance	(500)
–	Decrease in Trade Payables	(2,000)
+	Increase in Outstanding Employees Benefits Expenses	+1,000
=	Cash generated from Operations	52,500
–	Income tax paid	(11,000)
=	*Net cash from Operating Activities*	**41,500**

You will notice that the amount of cash flows from operating activities are the same whether we use direct method or indirect method for its calculation.

Working Notes :

The net profit before taxation and extraordinary items has been worked out as under:

Net Profit	=	Rs 32,000
+ Income Tax	=	Rs 10,000
= Net Profit before Tax and Extraordinary Items	=	Rs 42,000

Illustration 3

Calculate cash flows from operating activities from the following information.

Statement of Profit and Loss for the year ended March 31, 2017

Particulars	*Note No.*	*Amount Rs*
i) Revenue from Operations		50,000
ii) Other Income	1	5,000
iii) Total Revenue (i+ii)		55,000
iv) Expenses		
Cost of Materials Consumed		15,000
Employees Benefits Expenses		10,000
Depreciation and Amortisation Expenses	2	7,000
Other Expenses	3	21,000
		53,000
v) Profit before Tax (iii-iv)		2,000

Working Notes:

1. Other Income	=	Profit on Sale of Machinery (Rs 2,000) + Income Tax Refund (Rs 3,000)
	=	Rs 5,000
2. Depreciation and Amortisation Expenses	=	Depreciation (Rs 5,000) + Goodwill Amortised (Rs 2,000)
	=	Rs 7,000
3. Other Expenses	=	Rent (Rs 10,000) + Loss on Sale of Equipment (Rs 3,000) + Provision for Taxation (Rs 8,000)
	=	Rs 21,000

Additional Information:

	April 01, 2016 Rs	March 31, 2017 Rs
Provision for Taxation	10,000	13,000
Rent Payable	2,000	2,500
Trade Payables	21,000	25,000
Trade Receivables	15,000	21,000
Inventories	25,000	22,000

Solution:

Cash Flows from Operating Activities

Particulars	*(Rs)*
Net profit before taxation, and extraordinary items	7,000
Adjustments for:	
+ Depreciation	5,000
+ Loss on sale of equipment	3,000
+ Goodwill amortised	2,000

– Profit on sale of machinery	(2,000)
Operating Profit before Working capital changes	15,000
– Increase in Trade receivables	(6,000)
+ Decrease in Inventories	3,000
+ Increase in Trade payables	4,000
+ Increase in Rent payable	500
Cash generated from operations	16,500
Income Tax paid	(5,000)
Income Tax refund	3,000
Net Cash from Operating activities	**14,500**

Working Notes:

1. Net profit before taxation & extraordinary item = Rs 2,000 + Rs 8,000 – Rs 3,000
 = Rs 7,000
2. Income tax paid during the year has been ascertained by preparing provision for taxation account as follows:

Provision for taxation Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Cash (Income tax paid during the year :*Balancing Figure)*		5,000	Balance b/d		10,000
			Profit and Loss		8,000
Balance c/d		13,000			
		18,000			**18,000**

Illustration 4

Charles Ltd., made a profit of Rs 1,00,000 after charging depreciation of Rs 20,000 on assets and a transfer to general reserve of Rs 30,000. The goodwill amortised was Rs 7,000 and gain on sale of machinery was Rs 3,000. Other information available to you (changes in the value of current assets and current liabilities) are trade receivables showed an increase of Rs 3,000; trade payables an increase of Rs 6,000; prepaid expenses an increase of Rs 200; and outstanding expenses a decrease of Rs 2,000. Ascertain cash flow from operating activities.

Solution:

Cash Flows from Operating Activities

Particulars	*(Rs)*
Net Profit before Taxation	1,30,000
Adjustment for Non-cash and Non-operating Items :	
+ Depreciation	20,000
+ Goodwill amortised	7,000
– Gain on sale of machinery	(3,000)
Operating profit before working capital	**1,54,000**
Adjustment for working capital charges :	
– Increase in Trade receivables	(3,000)
+ Increase in Trade payables	6,000
– Increase in Prepaid expenses	(200)
– Decrease in Outstanding expenses	(2,000)
= Net Cash from Operating Activities	**1,54,800**

Working Notes :

Calculation of Net Profit before Taxation and Extraordinary items:

(1) Net Profit	= Rs 1,00,000
+ Transfer to General reserve	= Rs 30,000
	= Rs 1,30,000

Do it Yourself

Statement of Profit and Loss
for the year ending 31 March, 2017

Particulars	*Note*	*Figures in Rs*
i) Revenue from Operations	1	40,00,000
ii) Other Income	2	21,00,000
iii) Total Revenues (i+ii)		**61,00,000**
iv) Expenses		
Cost of Materials Consumed	3	20,00,000
Changes in inventories of finished goods	4	1,00,000
Depreciation and Amortisation expenses	5	3,80,000
Other expenses	6	20,40,000
Total expenses		**45,20,000**
v) Profit before Tax (iii-iv)		15,80,000

Working Notes:

			Rs
1.	Cash revenue from operations		8,00,000
	Credit revenue from operations		34,00,000
	Less: Returns		(2,00,000)
	Net Revenue from Operations		**40,00,000**
2.	Trading commission		20,40,000
	Discount received from suppliers		60,000
	Other income		**21,00,000**
3.	Cost of materials consumed paid in cash	4,00,000	
	Cost of materials consumed bought on credit	17,00,000	
	Less: Returns	(1,00,000)	
	Cost of materials consumed (Net)	**20,00,000**	

4. Changes in Inventories of finished goods = Opening inventory – Closing inventory
= Rs 2,00,000 – Rs 1,00,000
= Rs 1,00,000

5. Depreciation and Amortisation expenses = Depreciation + Amortisation expenses
= Rs 3,80,000 + 0
= Rs 3,80,000

6. Other expenses = 10,20,000 (Administrative expenses) +1,20,000 (Discount allowed to customers) + 1,00,000 (Bad debts) + 8,00,000 (Provision for tax)
= Rs 20,40,000

Additional Information:

	(Rs)	*(Rs)*
Trade Receivables	20,00,000	40,00,000
Trade Payables	20,00,000	10,00,000
Other Expenses payable (administrative)	10,000	20,000
Prepaid Administrative Expenses	20,000	10,000
Outstanding Trading Expenses	20,000	40,000
Advance Trading Expenses	40,000	20,000
Provision for Taxation	10,00,000	12,00,000

Ascertain Cash from Operations. Show your workings clearly.

2. From the following information calculate net cash from operations:

Particulars	*(Rs)*
Operating Profit after Provision for Tax of Rs 1,53,000	6,28,000
Insurance proceeds from the famine settlement	1,00,000
Proposed Dividend for the current year	72,000

Depreciation	1,40,000
Loss on Sale of Machinery	30,000
Profit on Sale of Investment	20,000
Dividend Received on Investments	6,000
Decrease in Current Assets (other than cash and cash equivalents)	10,000
Increase in Current Liabilities	1,51,000
Increase in Current Assets other than Cash and Cash Equivalents	6,00,000
Decrease in Current Liabilities	64,000
Income Tax Paid	1,18,000
Refund of Income Tax Received	3,000

Test your Understanding – II

1. Choose one of the two alternatives given below and fill in the blanks in the following statements:

(a) If the net profits earned during the year is Rs 50,000 and the amount of debtors in the beginning and the end of the year is Rs 10,000 and Rs 20,000 respectively, then the cash from operating activities will be equal to Rs ________________ (Rs 40,000/Rs 60,000)

(b) If the net profits made during the year are Rs 50,000 and the bills receivables have decreased by Rs 10,000 during the year then the cash flow from operating activities will be equal to Rs ______________ (40,000/Rs 60,000)

(c) Expenses paid in advance at the end of the year are ______________ the profit made during the year (added to/deducted from).

(d) An increase in accrued income during the particular year is ______________ the net profit (added to/deducted from).

(e) Goodwill amortised is ______________ the profit made during the year for calculating the cash flow from operating activities (added to/ deducted from).

(f) For calculating cash flow from operating activities, provision for doubtful debts is ______________ the profit made during the year (added to/ deducted from).

2. While computing cash from operating activities, indicate whether the following items will be added or subtracted from the net profit- if not to be considered, write NC

Items:	*Treatment*
(a) Increase in the value of creditors	
(b) Increase in the value of patents	
(c) Decrease in prepaid expenses	
(d) Decrease in income received in advance	
(e) Decrease in value of inventory	

(f) Increase in share capital
(g) Increase in the value of trade receivables
(h) Increase in the amount of outstanding expenses
(i) Conversion of debentures into shares
(j) Decrease in the value of trade payables
(k) Increase in the value of trade receivables
(l) Decrease in the amount of accrued income.

Sometimes, neither the amount of net profit is specified nor the Statement of profit and loss is given. In such a situation, the amount of net profit can be worked out by comparing the balances of Statement of Profit and Loss given in the comparative balance sheets for two years. The difference is treated as the net profit for the year; and, then, by adjusting it with the amount of provision for tax made during the year (as worked out by comparing the provision for tax balances of two years given in balance sheets), the amount of 'Net Profit before tax' can be ascertained (see Illustration 7 and 8).

6.7 Ascertainment of Cash Flow from Investing and Financing Activities

The details of item leading inflows and outflows from investing and financing activities have already been outlined. While preparing the cash flow statement, all major items of gross cash receipts, gross cash payments, and net cash flows from investing and financing activities must be shown separately under the headings 'Cash Flow from Investing Activities' and 'Cash Flow from Financing Activities' respectively.'

The ascertainment of net cash flows from investing and financing activities have been briefly dealt with in Illustrations 5 and 6.

Illustration 5

Welprint Ltd. has given you the following information:

	(Rs)
Machinery as on April 01, 2016	50,000
Machinery as on March 31, 2017	60,000
Accumulated Depreciation on April 01, 2016	25,000
Accumulated Depreciation on March 31, 2017	15,000

During the year, a Machine costing Rs 25,000 with Accumulated Depreciation of Rs 15,000 was sold for Rs 13,000.

Calculate cash flow from Investing Activities on the basis of the above information.

Solution:

Cash Flows from Investing Activities	*(Rs)*
Sale of Machinery	13,000
Purchase of Machinery	(35,000)
Net cash used in Investing Activities	**(22,000)**

Working Notes:

Machinery Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Balance b/d		50,000	Cash (proceeds from sale of machine)		13,000
Statement of Profit and Loss (profit on sale of machine)		3,000	Accumulated Depreciation		*15,000*
Cash (*balancing figure:new machinery purchased*)		35,000	Balance c/d		60,000
		88,000			**88,000**

Accumulated Depreciation Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Machinery		15,000	Balance b/d		25,000
Balance c/d		15,000	Statement of Profit and Loss (Depreciation provided during the year)		5,000
		30,000			**30,000**

Illustration 6

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

	April 1, 2016 *(Rs)*	March 31, 2017 *(Rs)*
Long-term Loans	2,00,000	2,50,000

During the year, the company repaid a loan of Rs 1,00,000.

Solution:

Cash flows from Financing Activities

Proceeds from long-term borrowings	1,50,000
Repayment of long-term borrowings	(1,00,000)
Net cash inflow from Financing Activities	*50,000*

Working Notes:

Long-term Loan Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Cash (loan repaid)		1,00,000	Balance b/d		2,00,000
Balance c/d		2,50,000	Cash (new loan raised)		1,50,000
		3,50,000			**3,50,000**

Do it Yourself

1. From the following particulars, calculate cash flows from investing activities:

	Purchased *(Rs)*	*Sold* *(Rs)*
Plant	4,40,000	50,000
Investments	1,80,000	1,00,000
Goodwill	2,00,000	—
Patents	—	1,00,000

Interest received on debentures held as investment Rs 60,000

Dividend received on shares held as investment Rs 10,000

A plot of land had been purchased for investment purposes and was let out for commercial use and rent received Rs 30,000.

2. From the following Information, calculate cash flows from investing and financing activities:

Particulars	*2016*	*2017*
Machine at cost	5,00,000	9,00,000
Accumulated Depreciation	3,00,000	4,50,000
Equity Shares Capital	28,00,000	35,00,000
Bank Loan	12,50,000	7,50,000

In year 2017, machine costing Rs 2,00,000 was sold at a profit of Rs 1,50,000, Depreciation charged on machine during the year 2015 amounted to Rs 2,50,000.

6.8 Preparation of Cash Flow Statement

As stated earlier cash flow statement provides information about change in the position of Cash and Cash Equivalents of an enterprise, over an accounting period. The activities contributing to this change are classified into operating, investing and financing. The methology of working out the net cash flow (or use) from all the three activities for an accounting period has been explained in details and a brief format of Cash Flow Statement has also been given in Exhibit 6.2. However, while preparing a cash flow statement, full details of inflows and outflows are given under these heads including the net cash flow (or use). The aggregate of the net 'cash flows (or use) is worked out and is shown as 'Net Increase/Decrease in cash and Cash Equivalents' to which the amount of 'cash and cash equivalent at the beginning' is added and thus the amount of 'cash and cash equivalents at the end' is arrived at as shown in Exhibit 6.2. This figure will be the same as the total amount of cash in hand, cash at bank and cash equivalants (if any) given in the balance sheet (see Illustrations 7 to 10). Another point that needs to be noted is that when cash flows from operating activities are worked out by an indirect method and shown as such in the cash flow statement, the statement itself is termed as 'Indirect method cash flow statement'. Thus, the Cash flow statements prepared in Illustrations 7, 8 and 9 fall under this category as the cash flows from operating activities have been worked out by indirect method. Similarly, if the cash flows from operating activities are worked by direct method while preparing the cash flow statement, it will be termed as 'direct method Cash Flow Statement'. Illustration 10 shows both types of Cash Flow Statement. However, unless it is specified clearly as to which method is to be used, the cash flow statement may preferably be prepared by an indirect method as is done by most companies in practice.

Illustration 7

From the following information, prepare Cash Flow Statement for Pioneer Ltd.

Balance Sheet of Pioneer Ltd., as on March 31, 2017

Particulars	*Note No.*	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	7,00,000	5,00,000
b) Reserve and surplus	2	3,50,000	2,00,000
2. Non-current Liabilities			
Long-term borrowings: Bank Loan		50,000	1,00,000
3. Current Liabilities			
a) Trade payables		45,000	50,000
b) Other current liabilities: outstanding rent		7,000	5,000
c) Short-term provisions	3	1,20,000	80,000
Total		**12,72,000**	**9,35,000**
II. Assets			
1. Non-current assets			
a) Fixed assets			
(i) Tangible assets	4	5,00,000	5,00,000
(ii) Intangible assets	5	95,000	1,00,000
b) Non-current investments		1,00,000	-
2. Current assets			
a) Inventories		1,30,000	50,000
b) Trade receivables		1,20,000	80,000
c) Cash and cash equivalents	6	3,27,000	2,05,000
Total		**12,72,000**	**9,35,000**

Notes to Accounts:

Particulars	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
1. Equity Share Capital	**7,00,000**	**5,00,000**
2. Reserve and Surplus Surplus: i.e., Balance in Statement of Profit and Loss	**3,50,000**	**2,00,000**

3. Short-term Provision:		
Proposed Dividend	70,000	50,000
Provision for Taxation	50,000	30,000
	1,20,000	**80,000**
4. Fixed Assets		
– Tangible assets		
– Equipments	2,30,000	2,00,000
– Furniture	2,70,000	3,00,000
	5,00,000	**5,00,000**
5. Intangible Assets		
Patents	**95,000**	**1,00,000**
6. Cash and cash equivalents		
i) Cash	27,000	5,000
ii) Bank balance	3,00,000	2,00,000
	3,27,000	**2,05,000**

During the year, equipment costing Rs 80,000 was purchased.
Loss on Sale of equipment amounted to Rs 5,000. Depreciation of Rs 15,000 and Rs 3,000 charged on equipments and furniture.

Solution:

Cash Flow Statement

	Particulars	*(Rs)*
I.	**Cash flows from Operating Activities :**	
	Net profit before taxation & extraordinary items	2,70,000
	Provision for :	
	Depreciation on equipment	15,000
	Depreciation on furniture	30,000
	Patents written-off	5,000
	Loss on sale of equipment	5,000
	Operating Profit before Working capital Changes	3,25,000
	– Decrease in Trade payables	(5,000)
	+ Increase in Outstanding rent	2,000
	– Increase in Trade receivables	(40,000)
	– Increase in inventories	(80,000)
	Cash generated from Operating activities	2,02,000
	(–) Tax paid	(30,000)
A.	Cash Inflows from Operating Activities	1,72,000
II.	**Cash flows from Investing Activities:**	
	Proceeds from sale of equipments	30,000
	Purchase of new equipment	(80,000)
	Purchase of Investments	(1,00,000)
B.	Cash used in Investing Activities	(1,50,000)

III.	**Cash flows from Financing Activities:**	
	Issues of equity share capital	2,00,000
	Repayment of bank loan	(50,000)
	Payment of dividend	(50,000)
C.	Cash Inflows from Financing Activities	**1,00,000**
	Net increase in Cash & Cash Equivalents (A+B+C)	1,22,000
	+ Cash and Cash Equivalents in the beginning	2,05,000
	Cash and Cash Equivalents in the end	**3,27,000**

Working Notes:

(1)

Equipment Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Balance b/d		2,00,000	Depreciation (balancing figure)		15,000
Cash		80,000	Bank		30,000
			Statement of Profit & Loss (Loss on sale)		5,000
			Balance c/d		2,30,000
		2,80,000			**2,80,000**

(2) Patents of Rs 5,000 (i.e., Rs 1,00,000 – Rs 95,000) were written-off during the year, and depreciation on furniture Rs 30,000. (Rs 3,00,000 – Rs 2,70,000)

(3) It is assumed that dividend of Rs 50,000 and tax of Rs 30,000 provided in 2015-2016 has been paid during the year 2016-17. Hence, proposed dividend and provision for tax during the year amounts to Rs 70,000 and Rs 50,000 respectively.

		(Rs)
(4)	Profit and Loss at the end	3,50,000
	(–) Profit and Loss in the beginning	2,00,000
(5)	Net Profit during the year	1,50,000
	+ Provision for tax during the year	50,000
	+ Proposed dividend	70,000
	Net Profit before taxation & extraordinary Items	**2,70,000**

Illustration 8

From the following Balance Sheets of Xerox Ltd., prepare cash flow statement.

Particulars	*Note No.*	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		15,00,000	10,00,000
b) Reserve and surplus (Balance in Statement of Profit and Loss)		7,50,000	6,00,000
2. Non-current Liabilities			
Long-term borrowings	1	1,00,000	2,00,000
3. Current Liabilities			
a) Trade payables		1,00,000	1,10,000
b) Short-term provisions (Provision for taxation)		95,000	80,000
Total		**25,45,000**	**19,90,000**
II. Assets			
1. Non-current assets			
a) Fixed assets			
(i) Tangible assets	2	10,10,000	12,00,000
(ii) Intangible assets (Goodwill)		1,80,000	2,00,000
b) Non-current investment		6,00,000	-
2. Current assets			
a) Inventories		1,80,000	1,00,000
b) Trade Receivables		2,00,000	1,50,000
c) Cash and cash equivalents	3	3,75,000	3,40,000
Total		**25,45,000**	**19,90,000**

Notes to Accounts:

Particulars	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
1. Long-term borrowings:		
i) Debentures	—	2,00,000
ii) Bank loan	1,00,000	—
	1,00,000	**2,00,000**
2. Tangible Assets		
i) Land and building	6,50,000	8,00,000
ii) Plant and machinery	3,60,000	4,00,000
	10,10,000	**12,00,000**
3. Cash and cash equivalents		
i) Cash in hand	70,000	50,000
ii) Bank balance	3,05,000	2,90,000
	3,75,000	**3,40,000**

Additional information:

1. Dividend proposed and paid during the year Rs 1,50,000.
2. Income tax paid during the year includes Rs 15,000 on account of dividend tax.
3. Land and building book value Rs 1,50,000 was sold at a profit of 10%.
4. The rate of depreciation on plant and machinery is 10%.

Solution:

Cash Flow Statement

Particulars	*(Rs)*
I. Cash flows from Operating Activities	
Net Profit before Taxation and Extraordinary Items	3,95,000
Adjustment for –	
+ Depreciation	40,000
+ Goodwill written-off	20,000
– Profit on Sale of Land	(15,000)
= Operating Profit before working capital changes	4,40,000
– Decrease in Trade Payables	(10,000)
– Increase in Trade Receivables	(50,000)
– Increase in Inventories	(80,000)
= Cash generated from Operations	3,00,000
– Income Tax Paid (1)	(65,000)
A. Cash Inflows from Operations	**2,35,000**
II. Cash flows from Investing Activities	
Proceeds from Sale of Land and Building	1,65,000
Purchase of Investment	(6,00,000)
B. Cash used in Investing Activities	**(4,35,000)**
III. Cash flows from Financing Activities	
Proceeds from issue of Equity Share Capital	5,00,000
Redemption of Debentures	(2,00,000)
Proceeds from raising Bank Loan	1,00,000
Dividend Paid	(1,50,000)
Dividend Tax Paid	(15,000)
C. Cash flows from Financing Activities	**2,35,000**
Net Increase in cash and cash equivalents (A+B+C)	35,000
+ Cash and Cash Equivalents in the beginning	3,40,000
Cash and Cash Equivalent at the end	**3,75,000**

Working Notes:

(1) Total tax paid during the year	Rs 80,0000
(–) Dividend tax paid (given)	Rs (15,000)
Income tax paid for operating activities	**Rs 65,000**

(2) Net profit earned during the year after tax and dividend
= Rs 7,50,000 – 6,00,000 = Rs 1,50,000

(3) Net profit before tax
= Net profit earned during the year after tax and dividend + Provision for tax made + Proposed Dividend
= Rs 1,50,000 + Rs 95,000 (See provision for taxation account)+ Rs 1,50,000
= Rs 3,95,000

Equity Share Capital Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Balance c/d		15,00,000	Balance b/d		10,00,000
			Cash (New capital raised)		5,00,000
		15,00,000			**15,00,000**

Debenture Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Cash (Redemption)		20,000	Balance b/d		20,000
		20,000			**20,000**

Bank Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Balance c/d		1,00,000	Cash		1,00,000
		1,00,000			**1,00,000**

Provision for Taxation Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Cash (Tax paid:which includes Rs 15,000 as dividend		80,000	Balance b/d		80,000
Balance c/d		95,000	Statement of Profit and Loss (Provision made during the year)		95,000
		1,75,000			**1,75,000**

Land and Building Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Balance b/d		8,00,000	Cash		1,65,000
Statement of Profit and Loss (Profit on sale)		15,000	Balance c/d		6,50,000
		8,15,000			**8,15,000**

Proposed Dividend Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Cash		1,50,000	Surplus		1,50,000
		1,50,000			**1,50,000**

Plant and Machinery Account

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Balance b/d		4,00,000	Depreciation		40,000
			Balance c/d		3,60,000
		4,00,000			**4,00,000**

Illustration 9

From the following information of Oswal Mills Ltd., prepare cash flow statement:

Balance Sheet of Oswal Mills
as on 31st March, 2016 and 2017

(Rupees in Lakhs)

Particulars	*Note No.*	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	1,300	1,400
b) Reserve and surplus (Surplus)		4,700	4,000
2. Current Liabilities			
a) Short-term borrowings		200	600
b) Trade payables		500	400
Total		**6,700**	**6,400**
II. Assets			
1. Non-current assets			
a) Fixed assets	2	2,400	2.400
b) Non-current investments		300	200
2. Current assets			
a) Inventories		1,200	1,300
b) Trade receivables		800	900
c) Cash and cash equivalents		1,200	800
d) Short-term loans and advances		800	800
Total		**6,700**	**6,400**

Notes to Accounts: (Rs in Lakhs)

Particulars	31st March 2017 (Rs)	31st March 2016 (Rs)
1. Share capital		
Equity share capital	1,000	1,000
10% preference share capital	300	400
	1,300	**1,400**
2. Fixed assets		
Tangible assets	3,600	3,400
Less: Accumlated depreciation	(1,200)	(1,000)
	2,400	**2,400**

Statement of Profit and Loss
for the year ended 31st March, 2017

(Rupees in Lakhs)

Particulars	Note No.	31stMarch 2017 (Rs)	-
I. Revenue from operation		2,800	-
II. Other income (dividend income)		1,000	-
III. Total Revenue		3,800	-
IV. Expenses			-
Cost of material consumed		400	-
Employees benefit expenses		200	-
Finance cost (interest paid)		200	-
Depreciation		200	-
Loss due to earthquake		1,100	-
		2,100	
V. Profit before tax		1,700	-
VI. Tax paid		1,000	-
Profit after tax		700	-

Additional information:
1. No dividend paid by the company during the current financial year.
2. Out of fixed assets, land worth Rs 1,000 Lakhs having no accumulated depreciation was sold at no profit or no loss.

Solution:

Cash Flow Statement

(Rupees in Lakhs)

Particulars	Rs
Cash Flows from Operating Activities	
Net Profit before Tax and Extraordinary Items (1)	2,800
Adjustment for Non-cash and Non-operating Items	
+ Interest paid	200
+ Depreciation	200
Operating profit before working capital changes	3,200
Adjustment for :	
+ Decrease in Inventories	100
+ Decrease in Trade Receivables	100

	+ Increase in Trade Payables	100
Cash generated from operations		3,500
	(–) Income Tax paid	(1,000)
Cash Flow before Extraordinary items		2,500
	(–) Loss due to earthquake	(1,100)
A.	Net cash from Operating Activities	1,400
Cash flows from Investing Activities		
	Sale of Land	1,000
	Purchase of fixed assets (2)	(1,200)
	Purchase of Investments	(100)
B.	Net cash from Investing Activities	(300)
Cash flows from Financing Activities		
	Payment of short-term loans	(400)
	Interest Paid	(200)
	Redemption of 10% preference share capital	(100)
C.	Net Cash used in Financing Activities	(700)
	Net increase in Cash and Cash Equivalents during the year (A+B+C)	400
	+ Cash and Cash Equivalents in the beginning of the year	800
	= Cash and Cash Equivalents in the end	**1,200**

Working Notes:

(Rs in Lakhs)

(1) Net Profit before Tax and Extraordinary Items = Rs 700 + Rs 1,100 + Rs 1,000
= Rs 2,800

(2) **Fixed Assets Account**

Dr. *Cr.*

Particulars	*J.F.*	*Amount (Rs)*	*Particulars*	*J.F.*	*Amount (Rs)*
Balance b/d		3,400	Cash (Sale of land)		1,000
Cash (Purchase of fixed assets)		1,200	Balance c/d		3,600
		4,600			**4,600**

Accumulated Depreciation Account

Dr. Particulars	J.F.	Amount (Rs)	Particulars	J.F.	Cr. Amount (Rs)
Balance c/d		1,200	Balance b/d		1,000
			Statement of Profit and Loss		200
		1,200			**1,200**

Illustration 10

From the following information of Banjara Ltd., prepare a cash flow statement:

(Rupees in Lakhs)

Particulars	Note No.	31stMarch 2017 (Rs)	31st March 2016 (Rs)
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		1,500	1,250
b) Reserve and surplus (surplus)		3,410	1,380
2. Non-current Liabilities			
Long-term borrowings (Long-term loan)		1,110	1,040
3. Current Liabilities			
a) Trade payables		150	1,890
b) Other current liabilities	1	630	1,100
Total		**6,800**	**6,660**
II. Assets			
1. Non-current assets			
a) Fixed assets	2	730	850
b) Non-current investments		2,500	2,500
2. Current assets			
a) Current investments (Marketable)		670	135
b) Inventories		900	1,950
c) Trade Receivables		1,700	1,200
d) Cash and cash equivalents		200	25
e) Other current assets (Interest receivables)		100	—
Total		**6,800**	**6,660**

Notes to Accounts:

Particulars	31st March 2017 (Rs)	31st March 2016 (Rs)
1. Other Current Liabilities		
i) Interest payable	230	100
ii) Income tax payable	400	1,000
	630	**1,100**

2. Fixed Assets:		
Tangible	2,180	1,910
Less: Accumlated depreciation	(1,450)	(1,060)
	730	**850**

Statement of Profit and Loss for the year ended 31 March, 2017

(Rupees in Lakhs)

Particulars	*Note No.*	*2017 March 31 (Rs)*
I. Revenue from operation		30,650
II. Other income	1	640
III. Total Revenue		**31,290**
IV. Expenses		
Cost of material consumed		26,000
Finance cost (interest expenses)		400
Depreciation		450
Other expenses (Admn. and selling expenses)		910
Total expenses		**27,760**
Profit before tax		3,530
Less: Tax		(300)
Profit after tax		**3,230**

Notes to Accounts:

Particulars	*Rs*
1. Other Income during the year 2016-17	
i) Interest Income	300
ii) Dividend Income	200
iii) Insurance Proceeds from earthquake disaster Settlement	140
	640

Additional Information:

(Rs ’000)

(i) An amount of Rs 250 was raised from the issue of share capital and a further Rs 250 was raised from long-term borrowings.

(ii) Interest expense was Rs 400 of which Rs 170 was paid during the period. Rs 100 relating to interest expense of the prior period was also paid during the period.

(iii) Dividends paid were Rs 1,200.

(iv) Tax deducted at source on dividends received (included in the tax expense of Rs 300 for the year) amounted to Rs 40.

(v) During the period, the enterprise acquired Fixed Assets for Rs 350. The payment was made in cash.

(vi) Plant with original cost of Rs 80 and accumulated depreciation of Rs 60 was sold for Rs 20.

(vii) Trade Receivables and Trade Payables include amounts relating to credit sales and credit purchases only.

Cash Flow Statement
(Direct Method)

(Rs '000)

Particulars	*Rs,*	*Rs*
Cash Flows from Operating Activities		
Cash Receipts from Customers	30,150	
Cash Paid to Suppliers and Employees	(27,600)	
Cash generated from Operations	2,550	
Income Tax paid	(860)	
Cash Flow before Extraordinary Item	1,690	
Proceeds from earthquake disaster settlement	140	
Net Cash from Operating Activities		1,830
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(350)	
Proceeds from Sale of Equipment	20	
Interest Received	200	
Dividends Received	160	
Net cash from Investing Activities		30
Cash Flows from Financing Activities		
Proceeds from issuance of Share Capital	250	
Proceeds from Long-term Borrowings	250	
Repayment of Long-term Borrowings	(180)	
Interest paid	(270)	
Dividends paid	(1,200)	
Net cash used in Financing Activities		(1,150)
Net increase in Cash and Cash Equivalents		710
Cash and cash equivalents at beginning of period		160
Cash and cash equivalents at end of period		870

Cash Flow Statement
(Indirect Method)

(Rs '000)

Particulars	*Rs*
Cash Flows from Operating Activities	
Net Profit before Taxation and Extraordinary Item	3,390
Adjustments for:	
+ Depreciation	450
– Interest Income	(300)
– Dividend Income	(200)
+ Interest Expense	400
Operating Profit before working capital changes	3,740
Increase in Trade Receivables	(500)
Decrease in Inventories	1,050
Decrease in Trade Payables	(1,740)
Cash generated from Operations	2,550
Income Tax paid	(860)
Cash flow before Extraordinary Items	1,690
Proceeds from earthquake disaster settlement	140
Net cash from Operating Activities	**1,830**
Cash Flows from Investing Activities	
Purchase of Fixed Assets	(350)
Proceeds from Sale of Equipment	20
Interest Received	200
Dividends Received (net of TDS)	160
Net cash from Investing Activities	**30**
Cash flows from Financing Activities	
Proceeds from issuance of Share Capital	250
Proceeds from Long-term Borrowings	250
Repayment of Long-term Borrowings	(180)
Interest Paid	(270)
Dividends Paid	(1,200)
Net Cash used in Financing Activities	**(1,150)**
Net Increase in Cash and Cash Equivalents	710
Cash and Cash Equivalents at the beginning of the period	160
Cash and Cash Equivalents at the end of the period	**870**

Working Notes:

(1) *Cash and Cash Equivalents*

Cash and Cash Equivalents consist of cash in hand and balances with banks, and investments in money-market instruments. Cash and Cash Equivalents included in the Cash Flow Statement comprise of the following balance sheet amounts.

(Rs '000)

	2017 (Rs)	2016 (Rs)
Cash in Hand and balances with Bank	200	25
Short-term Investments	670	135
Cash and Cash Equivalents	870	160

(2) *Cash Receipts from Customers*

Sales	30,650	
Add: Trade Receivables at the beginning of the year	1,200	
	31,850	
Less : Trade Receivables at the end of the year	(1,700)	
	30,150	

(3) *Cash paid to Suppliers and Employees*

Cost of Revenue from operations		26,000
Administrative and Selling Expenses		910
		26,910
Add: Trade Payables at the beginning of the year	1,890	
Inventories at the end of the year	900	2,790
		29,700
Less : Trade Payables at the end of the year	150	
Inventories at the beginning of the year	1,950	(2,100)
		27,600

(4) *Income Tax paid (including TDS from dividends received)*

Income Tax expense for the year (including tax deducted at source from dividends received)	300
Add : Income Tax liability at the beginning of the year	1,000
	1,300
Less : Income tax payable at the end of the year	(400)
	900

Out of Rs 900, tax deducted at source on dividends received (amounting to Rs 40) is included in cash flows from investing activities and the balance of Rs 860 is included in cash flows from operating activities.

(5) *Repayment of Long-term Borrowings*

Long-term Debts at the beginning of the year	1,040
Add : Long-term Borrowings made during the year	250
	1,290
Less : Long-term Borrowings at the end of the year	(1,110)
	180

(6) *Interest paid*

Interest expense for the year	400
Add: Interest Payable at the beginning of the year	100
	500
Less: Interest Payable at the end of the year	(230)
	270

Terms Introduced in the Chapter

1. Cash
2. Cash Equivalents
3. Cash Inflows
4. Cash Outflows
5. Non-cash item
6. Cash Flow Statement
7. Operating Activities
8. Investing Activities
9. Financing Activities
10. Accounting Standard-3
11. Extraordinary Items

Summary

Cash Flow Statement: The Cash Flow Statement helps in ascertaining the liquidity of an enterprise. Cash Flow Statement is to be prepared and reported by Indian companies according to AS-3 issued by The Institute of Chartered Accountants of India. The cash flows are categorised into flows from operating, investing and financing activities. This statement helps the users to ascertain the amount and certainty of cash flows to be generated by company.

Questions for Practice

Short Answer Questions

1. What is a Cash flow statement?
2. How are the various activities classified (as per AS-3 revised) while preparing cash flow statement?
3. State the uses of cash flow statement.
4. What are the objectives of preparing cash flow statement?
5. State the meaning of the terms: (i) Cash Equivalents, (ii) Cash flows.
6. Prepare a format of cash flow from operating activities under indirect method.
7. State clearly what would constitute the operating activities for each of the following enterprises:
   (i) Hotel
   (ii) Film production house
   (iii) Financial enterprise
   (iv) Media enterprise
   (v) Steel manufacturing unit
   (vi) Software development business unit.
8. "The nature/type of enterprise can change altogether the category into which a particular activity may be classified." Do you agree? Illustrate your answer.

Long Answer Questions

1. Describe the procedure to prepare Cash Flow Statement.
2. Describe "Indirect" method of ascertaining Cash Flow from operating activities.
3. Explain the major Cash Inflows and outflows from investing activities.
4. Explain the major Cash Inflows and outflows from financing activities.

Numerical Questions

1. Anand Ltd., arrived at a net income of Rs 5,00,000 for the year ended March 31, 2017. Depreciation for the year was Rs 2,00,000. There was a profit of Rs 50,000 on assets sold which was transferred to Statement of Profit and Loss account. Trade Receivables increased during the year Rs 40,000 and Trade Payables also increased by Rs 60,000. Compute the cash flow from operating activities by the indirect approach.

   [**Ans.:** Rs 6,70,000]

2. From the information given below you are required to calculate the cash paid for the inventory:

Particulars	(Rs)
Inventory in the beginning	40,000
Credit Purchases	1,60,000
Inventory in the end	38,000
Trade payables in the beginning	14,000
Trade payables in the end	14,500

[**Ans.:** Rs 1,59,500]

3. For each of the following transactions, calculate the resulting cash flow and state the nature of cash flow, viz., operating, investing and financing.

   (a) Acquired machinery for Rs 2,50,000 paying 20% by cheque and executing a bond for the balance payable.

   (b) Paid Rs 2,50,000 to acquire shares in Informa Tech. and received a dividend of Rs 50,000 after acquisition.

   (c) Sold machinery of original cost Rs 2,00,000 with an accumulated depreciation of Rs 1,60,000 for Rs 60,000.

   [**Ans.:** (a) Rs (50,000) investing activity (outflow); (b) Rs (2,00,000) investing activity (outflow); (c) Rs 60,000 investing activity (inflow).

4. The following is the Profit and Loss Account of Yamuna Limited:

Statement of Profit and Loss of Yamuna Ltd., for the Year ended March 31, 2017

Particulars	*Note No.*	*Amount (Rs)*
i) Revenue from Operations		10,00,000
ii) Expenses		
Cost of Materials Consumed	1	50,000
Purchases of Stock-in-trade		5,00,000
Other Expenses	2	3,00,000
Total Expenses		**8,50,000**
iii) Profit before tax (i-ii)		1,50,000

Additional information:

(i) Trade receivables decrease by Rs 30,000 during the year.
(ii) Prepaid expenses increase by Rs 5,000 during the year.
(iii) Trade payables increase by Rs 15,000 during the year.
(iv) Outstanding expenses payable increased by Rs 3,000 during the year.
(v) Other expenses included depreciation of Rs 25,000.

Compute net cash from operations for the year ended March 31, 2017 by the indirect method.

[**Ans.:** Cash from operations Rs 2,18,000].

5. Compute cash from operations from the following figures:

(i) Profit for the year 2016-17 is a sum of Rs 10,000 after providing for depreciation of Rs 2,000.

(ii) The current assets and current liabilities of the business for the year ended March 31, 2016 and 2015 are as follows:

Particulars	*March 31, 2016 (Rs)*	*March 31, 2017 (Rs)*
Trade Receivables	14,000	15,000
Provision for Doubtful Debts	1,000	1,200
Trade Payables	13,000	15,000
Inventories	5,000	8,000
Other Current Assets	10,000	12,000
Expenses payable	1,000	1,500
Prepaid Expenses	2,000	1,000
Accrued Income	3,000	4,000
Income received in advance	2,000	1,000

[**Ans.:** Cash from operations: Rs 7,700].

6. From the following particulars of Bharat Gas Limited, calculate Cash Flows from Investing Activities. Also show the workings clearly preparing the ledger accounts:

Balance Sheet of Bharat Gas Ltd., as on 31 March, 2016 and 31 March 2017

Particulars	*Note No.*	*Figures as the end of 2017 (Rs)*	*Figures as at the end of reporting 2016 (Rs)*
II) Assets			
1. Non-current Assets			
a) Fixed assets			
i) Tangible assets	1	12,40,000	10,20,000
ii) Intangible assets	2	4,60,000	3,80,000
b) Non-current investments	3	3,60,000	2,60,000

Notes: 1 Tangible assets = Machinery
2 Intangible assets = Patents

Notes to accounts:

	Figures of current year	Figures of previous year
1. Tangible Assets		
Machinery	**12,40,000**	**10,20,000**
2. Intangible Assets		
Goodwill	3,00,000	1,00,000
Patents	1,60,000	2,80,000
	4,60,000	**3,80,000**

3. Non-current Investments		
10% long term investments	1,60,000	60,000
Investment in land	1,00,000	1,00,000
Shares of Amartex Ltd.	1,00,000	1,00,000
	3,60,000	**2,60,000**

Additional Information:

(a) Patents were written-off to the extent of Rs 40,000 and some Patents were sold at a profit of Rs 20,000.

(b) A Machine costing Rs 1,40,000 (Depreciation provided thereon Rs 60,000) was sold for Rs 50,000. Depreciation charged during the year was Rs 1,40,000.

(c) On March 31, 2016, 10% Investments were purchased for Rs 1,80,000 and some Investments were sold at a profit of Rs 20,000. Interest on Investment was received on March 31, 2017.

(d) Amartax Ltd., paid Dividend @ 10% on its shares.

(e) A plot of Land had been purchased for investment purposes and let out for commercial use and rent received Rs 30,000.

[**Ans.:** Rs 5,24,000].

7. From the following Balance Sheet of Mohan Ltd., prepare cash flow Statement:

Balance Sheet of Mohan Ltd.,
as at 31st March 2016 and 31st March 2017

Particulars	*Note No.*	*March 31, 2017 (Rs)*	*March 31, 2016 (Rs)*
I) Equity and Liabilities			
1. Shareholders' Funds			
a) Equity share capital		3,00,000	2,00,000
b) Reserves and surplus		2,00,000	1,60,000
2. Non-current liabilities			
a) Long-term borrowings	1	80,000	1,00,000
3. Current liabilities			
Trade payables		1,20,000	1,40,000
Short-term provisions	2	70,000	60,000
Total		**7,70,000**	**6,60,000**
II) Assets			
1. Non-current assets			
Fixed assets	3	5,00,000	3,20,000
2. Current assets			
a) Inventories		1,50,000	1,30,000
b) Trade receivables	4	90,000	1,20,000
c) Cash and cash equivalents	5	30,000	90,000
Total		**7,70,000**	**6,60,000**

Notes to accounts:

		2017	2016
1.	Long-term borrowings		
	Bank Loan	**80,000**	**1,00,000**
2.	Short-term provision		
	Proposed dividend	**70,000**	**60,000**
3.	Fixed assets	6,00,000	4,00,000
	Less: Accumulated Depreciation	1,00,000	80,000
	(Net) Fixed Assets	**5,00,000**	**3,20,000**
4.	Trade receivables		
	Debtors	60,000	1,00,000
	Bills receivables	30,000	20,000
		90,000	**1,20,000**
5.	Cash and cash equivalents		
	Bank	**30,000**	**90,000**

Additional Information:

Machine Costing Rs 80,000 on which accumulated depreciation was Rs, 50,000 was sold for Rs 20,000.

		Rs
[**Ans.:**	Cash flow from Operating Activities	1,80,000
	Cash flow from Investing Activities	(2,60,000)
	Cash flow from Financing Activities	20,000.

8. From the following Balance Sheets of Tiger Super Steel Ltd., prepare Cash Flow Statement:

Balance Sheet of Tiger Super Steel Ltd.
as at 31st March 2014 and 31st March 2017

Particulars	*Note No.*	*March 31, 2017 (Rs)*	*March 31, 2016 (Rs)*
I) Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	1,40,000	1,20,000
b) Reserves and surplus	2	22,800	15,200
2. Current Liabilities			
a) Trade payables	3	21,200	14,000
b) Other current liabilities	4	2,400	3,200
c) Short-term provisions	5	28,400	22,400
		2,14,800	**1,74,800**
II) Assets			
1. Non-Current Assets			
a) Fixed assets			
i) Tangible assets	6	96,400	76,000
ii) Intangible assets		18,800	24,000
b) Non-current investments		14,000	4,000
2. Current Assets			
a) Inventories		31,200	34,000
b) Trade receivables		43,200	30,000
c) Cash and Cash Equivalents		11,200	6,800
		2,14,800	**1,74,800**

Notes to accounts:

	2017	2016
1. Share Capital		
Equity share capital	1,20,000	80,000
10% Preference share capital	20,000	40,000
	1,40,000	**1,20,000**
2. Reserves and surplus		
General reserve	12,000	8,000
Balance in statement of profit and loss	10,800	7,200
	22,800	**15,200**
3. Trade payables		
Bills payable	21,200	14,000
4. Other current liabilities		
Outstanding expenses	**2,400**	**3,200**
5. Short-term provisions		
Provision for taxation	12,800	11,200
Proposed dividend	15,600	11,200
	28,400	**22,400**
6. Tangible assets		
Land and building	20,000	40,000
Plant	76,400	36,000
	96,400	**76,000**

Additional Information:

Depreciation Charge on Land & Building Rs 20,000, and Plant Rs 10,000 during the year.

[**Ans.:** Cash flow from Operating Activities Rs 56,000
Cash flow from Investing Activities Rs (60,400)
Cash flow from Financing Activities Rs 8,800].

9. From the following information, prepare cash flow statement:

Particulars	*Note No.*	*31st March 2015 (Rs)*	*31st March 2014 (Rs)*
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		7,00,000	5,00,000
b) Reserve and surplus		4,70,000	2,50,000
2. Non-current Liabilities (8% Debentures)		4,00,000	6,00,000
3. Current Liabilities			
Trade payables		9,00,000	6,00,000
Total		**24,70,000**	**19,50,000**

II. Assets			
1. Non-current assets			
Fixed assets			
i) Tangible		7,00,000	5,00,000
ii) Intangible–Goodwill		1,70,000	2,50,000
2. Current assets			
a) Inventories		6,00,000	5,00,000
b) Trade Receivables		6,00,000	4,00,000
c) Cash and cash equivalents		4,00,000	3,00,000
Total		**24,70,000**	**19,50,000**

Additional Information:

Depreciation Charge on Plant amount to Rs 80,000.

		Rs
[**Ans.:**	Cash inflow from Operating Activities	4,28,000
	Cash inflow from Investing Activities	(2,80,000)
	Cash inflow from Financing Activities	(48,000).

10. From the following Balance Sheet of Yogeta Ltd., prepare cash flow statement:

Particulars	*Note No.*	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	4,00,000	2,00,000
b) Reserve and surplus (Surplus)		2,00,000	1,00,000
2. Non-current Liabilities			
Long-term borrowings	2	1,50,000	2,20,000
3. Current Liabilities			
a) Short-term borrowings (Bank overdraft)		1,00,000	—
b) Trade payables		70,000	50,000
c) Short-term provision (Provision for taxation)		50,000	30,000
Total		**9,70,000**	**6,00,000**
II. Assets			
1. Non-current assets			
Fixed assets			
Tangible		7,00,000	4,00,000
2. Current assets			
a) Inventories		1,70,000	1,00,000
b) Trade Receivables		1,00,000	50,000
c) Cash and cash equivalents		—	50,000
Total		**9,70,000**	**6,00,000**

Notes to Accounts:

Particulars	31st March 2017 (Rs)	31st March 2016 (Rs)
1. Share capital		
a) Equity share capital	3,00,000	2,00,000
b) Preference share capital	1,00,000	—
	4,00,000	**2,00,000**
2. Long-term borrowings		
Long-term loan	—	2,00,000
Loan from Rahul	1,50,000	20,000
	1,50,000	**2,20,000**

Additional Information:

Net Profit for the year after charging Rs 50,000 as Depreciation was Rs 1,50,000. Dividend paid on Share was Rs 50,000, Tax Provision created during the year amounted to Rs 60,000.

		Rs
[**Ans.:**	Cash from Operating Activities	1,20,000
	Cash from Investing Activities	(3,50,000)
	Cash from Financing Activities	80,000

11. Following is the Financial Statement of Garima Ltd., prepare cash flow statement.

Particulars	*Note No.*	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	4,40,000	2,80,000
b) Reserve and surplus (Surplus)	2	40,000	28,000
2. Current Liabilities			
a) Trade payables		1,56,000	56,000
b) Short-term provisions (Provision for taxation)		12,000	4,000
Total		**6,48,000**	**3,68,000**
II. Assets			
1. Non-current assets			
Fixed assets			
Tangible		3,64,000	2,00,000
2. Current assets			
a) Inventories		1,60,000	60,000
b) Trade receivables		80,000	20,000
c) Cash and cash equivalents		28,000	80,000
d) Other current assets		16,000	8,000
Total		**6,48,000**	**3.68,000**

Notes to Accounts:

	Particulars	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
1.	Share capital		
	a) Equity share capital	3,00,000	2,00,000
	b) Preference share capital	1,40,000	80,000
		4,40,000	**2,80,000**
2.	Reserve and surplus		
	Surplus in statement of profit and loss at the beginning of the year	28,000	
	Add: Profit of the year	16,000	
	Less: Dividend	4,000	
	Profit at the end of the year	**40,000**	

Additional Information:

1. Interest paid on Debenture Rs 600
2. Dividend paid during the year Rs 4,000
3. Depreciation charged during the year Rs 32,000

		Rs
[**Ans.:**	Cash flow from Operating Activities	(11,400)
	Cash flow from Investing Activities	(1,96,000)
	Cash flow from Financing Activities	1,55,400.

12. From the following Balance Sheet of Computer India Ltd., prepare cash flow statement.

(Rs in '000)

Particulars	*Note No.*	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		50,000	40,000
b) Reserve and surplus–Surplus	1	3,700	3,000
2. Non-Current Liabilities			
10% Debentures		6,500	6,000
3. Current liabilities			
a) Short-term borrowings	2	6,800	12,500
b) Trade payables		11,000	12,000
c) Short-term provisions	3	10,000	8,000
Total		**88,000**	**81,500**
II. Assets			
1. Non-current assets			
a) Fixed assets	4	25,000	30,000
2. Current assets			
a) Inventories		35,000	30,000
b) Trade receivables		24,000	20,000
c) Cash and cash equivalents–cash		3,500	1,200
d) Other current assets–prepaid exp.		500	300
Total		**88,000**	**81,500**

Notes to Accounts:

	Particulars	*31st March 2017 (Rs)*	*31st March 2016 (Rs)*
1.	Reserve and surplus		
	i) Balance in statement of profit and loss	1,200	1,000
	ii) General reserve	2,500	2,000
		3,700	**3,000**
2.	Short-term borrowings		
	Bank overdraft	6,800	12,500
3.	Short-term provisions		
	i) Provision for taxation	4,200	3,000
	ii) Proposed dividend	5,800	5,000
		10,000	**8,000**
4.	Fixed Assets:		
	Fixed Assets	40,000	41,000
	Less Accumulated Depreciation	(15,000)	(11,000)
		25,000	**30,000**

Additional Information:

Interest paid on Debenture Rs 600

[**Ans.:** Net Cash from Operating Activities Rs 2,100
Net Cash from Investing Activities Rs 1,000
Net Cash from Financing Activities Rs 4,900

Project Work

1. Read and analyse the cash flow statements as given in the Annual Report of any three listed companies and ascertain:
   (i) which method (direct or indirect) is used for the purpose of calculating cash flows from operating activities;
   (ii) the treatment of special items such as dividend tax, profit/loss on sale of fixed assets, depreciation extraordinary items, etc.
   (iii) Whether all companies follow the same proforma of cash flow statement or different ones.
   (iv) As to whether you think that companies properly highlight cash flow statement in their Annual Reports.

2. "Why companies must necessarily prepare and present a statement of cash flows". Discuss it in the classroom. Comment.

3. You analyse the cash flow statement for the past 3 years for a company chosen by you and find out-
   (i) Whether the net increase in cash and cash equivalents over the years is noticed.
   (ii) If net cash flow from operating activities have been negative throughout, what may be the possible reasons for the situation. What would be the possible reasons for your perception about the functioning of the company?

Answers to Test your Understanding

Test your Understanding – I

Answer : a) Operating activities - 3, 6, 7, 10, 13, 15, 19, 20, 23, 24, 27;
b) Investing activities - 1, 5, 8, 11, 12, 16, 17, 21, 22
c) Financing activities - 2, 4, 9, 14, 18, 25, 26, 28, 29;
d) Cash equivalents - 30, 31, 32, 33.

Test your Understanding – II

Answers: (a) 40,000, (b) 60,000, (c) deducted from,

(d) deducted from, (e) added to, (f) added to

Answers: 1. +, 2. NC, 3. +, 4. –, 5. +, 6. NC, 7. –, 8 +, 9. NC, 10 –, 11 –, 12 +

NOTE

Note