

IMPORTANT QUESTION**Question - 1. (ICAI MODULE)**

Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

- a) Loans and Advances given to the following and interest earned on them:*
- 1. to suppliers*
 - 2. to employees*
 - 3. to its subsidiaries companies*
- b) Investment made in subsidiary Smart Ltd. and dividend received*
- c) Dividend paid for the year*
- d) TDS on interest income earned on investments made*
- e) TDS on interest earned on advance given to suppliers*
- f) Insurance claim received against loss of fixed asset by fire Discuss in the context of AS 3 Cash Flow Statement.*

Solution:**a) Loans and advances given and interest earned**

- | | |
|--------------------------------|---------------------|
| 1. to suppliers | Operating Cash flow |
| 2. to employees | Operating Cash flow |
| 3. to its subsidiary companies | Investing Cash flow |

b) Investment made in subsidiary company and dividend received

Investing Cash flow

c) Dividend paid for the year

Financing Cash Outflow

d) TDS on interest income earned on investments made

Investing Cash Outflow

e) TDS on interest earned on advance given to suppliers

Operating Cash Outflow

f) Insurance claim received of amount loss of fixed asset by fire

Extraordinary item to be shown under a separate heading as 'Cash inflow from investing activities'.

Question - 2.

The following summary cash account has been extracted from the company's accounting records:

Summary Cash Account

		(Rs '000)
Balance at 1.3.20X1		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		3,246
Payments to suppliers	2,047	
Payments for fixed assets	230	
Payments for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayments of bank loan	250	(3,034)
Balance at 31.3.20X2		212

Prepare Cash Flow Statement of this company Hills Ltd. for the year ended 31st March, 20X2 in accordance with AS-3 (Revised).

The company does not have any cash equivalents.

Solution:**Hills Ltd.**

**Cash Flow Statement for the year ended 31st March, 20X2
(Using direct method)**

Particulars		(Rs '000)
Cash flows from operating activities		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	(115)	
Cash generated from operations	552	
Income taxes paid	(243)	
Net cash from operating activities		309
Cash flows from investing activities		
Payments for purchase of fixed assets	(230)	
Proceeds from sale of fixed assets	128	
Net cash used in investing activities		(102)
Cash flows from financing activities		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
Net cash used in financing activities		(30)
Net increase in cash and cash equivalents		177
Cash and cash equivalents at beginning of period		35
Cash and cash equivalents at end of period		212

Question - 3.

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 20X1 with the help of the following information:

1. Company sold goods for cash only.
2. Gross Profit Ratio was 30% for the year, gross profit amounts to Rs 3,82,500.
3. Opening inventory was lesser than closing inventory by Rs 35,000.
4. Wages paid during the year Rs 4,92,500.
5. Office and selling expenses paid during the year Rs 75,000.
6. Dividend paid during the year Rs 30,000 (including dividend distribution tax.)
7. Bank loan repaid during the year Rs 2,15,000 (included interest Rs 15,000)
8. Trade payables on 31st March, 20X0 exceed the balance on 31st March, 20X1 by Rs 25,000.
9. Amount paid to trade payables during the year Rs 4,60,000.
10. Tax paid during the year amounts to Rs 65,000 (Provision for taxation as on 31.03.20X1 Rs 45,000).
11. Investments of Rs 7,00,000 sold during the year at a profit of Rs 20,000.
12. Depreciation on fixed assets amounts to Rs 85,000.
13. Plant and machinery purchased on 15th November, 20X0 for Rs 2,50,000.
14. Cash and Cash Equivalent on 31st March, 20X0 Rs 2,00,000.
15. Cash and Cash Equivalent on 31st March, 20X1 Rs 6,07,500.

Solution:

M/s MNT Ltd.

**Cash Flow Statement for the year ended 31st March, 20X1
(Using direct method)**

Particulars	Rs	Rs
Cash flows from Operating Activities		
Cash sales (₹ 3,82,500 / .30)		12,75,000
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	(10,27,500)
Cash generated from operations before taxes		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
Cash flows from investing activities		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		4,70,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,15,000)	
Dividend paid (including dividend distribution tax)	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
Cash and cash equivalents at beginning of the period		2,00,000
Cash and cash equivalents at end of the period		6,07,500

Question - 4.

The following data were provided by the accounting records of Ryan Ltd. at year-end, March 31, 20X1:

Income Statement

		Rs
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
Gross Margin		1,78,000
Operating Expenses		
(including Depreciation Expense of Rs 37,000)		(1,47,000)
Other Income / (Expenses)		31,000
Interest Expense paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	
Loss on Sale of Plant	(3,000)	
		(8,000)
		23,000
Income tax		(7,000)
		16,000

Comparative Balance Sheets

	31st March	31st March
Assets		
Plant Assets	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Current Assets:		
Inventory	1,44,000	1,10,000
Accounts receivable	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
	9,65,000	7,49,000
Liabilities		
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Current liabilities:		
Accounts payable	50,000	43,000
Accrued liabilities	12,000	9,000
Income taxes payable	3,000	5,000
	9,65,000	7,49,000

Analysis of selected accounts and transactions during 20X0-X1

1. Purchased investments for Rs 78,000.
2. Sold investments for Rs 1,02,000. These investments cost Rs 90,000.
3. Purchased plant assets for Rs 1,20,000.
4. Sold plant assets that cost Rs 10,000 with accumulated depreciation of Rs 2,000 for Rs 5,000.
5. Issued Rs 1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 20X1.
6. Repaid Rs 50,000 of bonds at face value at maturity.

7. Issued 15,000 shares of Rs 10 each.

8. Paid cash dividends Rs 8,000.

Prepare Cash Flow Statement as per AS-3 (Revised), using indirect method.

Solution:

Ryan Ltd.
Cash Flow Statement
for the year ending 31st March, 20X1

Particulars	Rs	Rs
Cash flows from operating activities		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	
Operating profit before working capital changes	68,000	
Decrease in accounts receivable	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in accounts payable	7,000	
Increase in accrued liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
Net cash generated from operating activities		47,000
Cash flows from investing activities		
Purchase of plant	(1,20,000)	
Sale of plant	5,000	
Purchase of investments	(78,000)	
Sale of investments	1,02,000	
Interest received	6,000	
Net cash used in investing activities		(85,000)
Cash flows from financing activities		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
Net cash from financing activities		69,000
Net increase in cash and cash equivalents		31,000
Cash and cash equivalents at the beginning of the period		15,000
Cash and cash equivalents at the end of the period		46,000

***Working Note:**

	Rs
Income taxes paid:	
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	<u>5,000</u>
	12,000
Less: Income tax liability at the end of the year	<u>(3,000)</u>
	<u>9,000</u>

Question - 5.

The balance sheets of Sun Ltd. for the years ended 31st March 20X1 and 20X0 were summarised as:

	20X1	20X0
	Rs	Rs
Equity Share Capital	60,000	50,000
Reserves:		
Profit and Loss Account	5,000	4,000
Current Liabilities:		
Trade payables	4,000	2,500
Taxation	1,500	1,000
dividends payable	2,000	1,000
	72,500	58,500
Fixed Assets (at w.d.v.)		
Premises	10,000	10,000
Fixtures	17,000	11,000
Vehicles	12,500	8,000
Short-term investments	2,000	1,000
Current Assets		
Inventory	17,000	14,000
Trade receivables	8,000	6,000
Bank and Cash	6,000	8,500
	72,500	58,500

The profit and loss account for the year ended 31st March, 20X1 disclosed

Profit before tax	4,500
Taxation	(1,500)
Profit after tax	3,000
Declared dividends	(2,000)
Retained profit	1,000

Further information is available

	Fixtures	Vehicles
	Rs	Rs
Depreciation for year	1,000	2,500
Disposals:		
Proceeds on disposal	—	1,700
Written down value	—	(1,000)
Profit on disposal		700

Prepare a Cash Flow Statement for the year ended 31st March, 20X1.

Solution

Sun Ltd.
Cash Flow Statement
for the year ended 31st March, 20X1

Particulars	Rs	Rs
Cash flows from operating activities		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 - 1,000)	(700)	
Operating profit before working capital changes	7,300	

Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations	3,800	
Income taxes paid (W.N.1)	(1,000)	
Net cash generated from operating activities		2,800
Cash flows from investing activities		
Sale of vehicles	1,700	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
Net cash used in investing activities		(13,300)
Cash flows from financing activities		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(1,000)	
Net cash from financing activities		9,000
Net decrease in cash and cash equivalents		(1,500)
Cash and cash equivalents at beginning of period (See Note)		9,500
Cash and cash equivalents at end of period (See Note)		8,000
Note to the Cash Flow Statement		
Cash and Cash Equivalents	31.3.20X1	31.3.20X0
Bank and Cash	6,000	8,500
Short-term investments	2,000	1,000
Cash and cash equivalents	8,000	9,500

Working Notes:

	Particulars		Rs
1.	Income taxes paid		
	Income tax expense for the year		1,500
	Add: Income tax liability at the beginning of the year		1,000
			2,500
	Less: Income tax liability at the end of the year		(1,500)
			1,000
2.	Dividend paid		
	Declared dividend for the year		2,000
	Add: Amount payable at the beginning of the year		1,000
			3,000
	Less: Amount payable at the end of the year		(2,000)
			1,000
3.	Fixed assets acquisitions		
		Fixtures	Vehicles
		Rs	Rs
	W.D.V. at 31.3.20X1	17,000	12,500
	Add back:		
	Depreciation for the year	1,000	2,500
	Disposals	—	1,000
		18,000	16,000
	Less: W.D.V. at 31.12.20X0	(11,000)	(8,000)
	Acquisitions during 20X0-20X1	7,000	8,000

Question 6.

Given below is the Statement of Profit and Loss of ABC Ltd. and relevant Balance Sheet information:

**Statement of Profit and Loss of ABC Ltd.
for the year ended 31st March, 20X1**

Particulars	Rs in lakhs
Revenue:	
Sales	4,150
Interest and dividend	100
Stock adjustment	20
Total (A)	4,270
Expenditure:	
Purchases	2,400
Wages and salaries	800
Other expenses	200
Interest	60
Depreciation	100
Total (B)	3,560
Profit before tax (A - B)	710
Tax provision	200
Profit after tax	510
Balance of Profit and Loss account brought forward	50
Profit available for distribution (C)	560
Appropriations:	
Transfer to general reserve	200
Declared dividend (including CDT)	330
Total (D)	530
Balance (C - D)	30

Relevant Balance Sheet information	31.3.20X1	31.3.20X0
	Rs in lakhs	Rs in lakhs
Trade receivables	400	250
Inventories	200	180
Trade payables	250	230
Outstanding wages	50	40
Outstanding expenses	20	10
Advance tax	195	180
Tax provision	200	180

Compute cash flow from operating activities using both direct and indirect method.

Solution:

By direct method

Computation of Cash Flow from Operating Activities

Particulars	Rs in lakhs	Rs in lakhs
Cash Receipts:		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables - Closing Trade receivables	4,150+250-400	4,000
(A)		
Cash payments:		
Cash purchases & payment to Trade payables	2,400+230-250	2,380
Purchases + Opening Trade payables - Closing Trade		

payables		
Wages and salaries paid	800+40-50	790
Cash expenses	200+10-20	190
Taxes paid – Advance tax		195
(B)		3,555
Cash flow from operating activities (A - B)		445

By Indirect Method
Computation of Cash Flow from Operating Activities

	Rs in lakhs	Rs in lakhs
By Indirect method		
Profit before tax		710
Add: Non-cash items : Depreciation		100
Add: Interest : Financing cash outflow		60
Less: Interest and Dividend : Investment cash inflow		(100)
Less: Tax paid		(195)
Working capital adjustments		
Trade receivables	250-400=(150)	
Inventories	180-200= (20)	
Trade payables	250-230 =20	
Outstanding wages	50-40=10	
Outstanding expenses	20-10 =10	(130)
Cash flow from operating activities		445

Question 7.

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.20X1 from the following information:

- (1) Sales for the year amounted to Rs135 crores out of which 60% was cash sales.
- (2) Purchases for the year amounted to Rs55 crores out of which credit purchase was 80%.
- (3) Administrative and selling expenses amounted to Rs18 crores and salary paid amounted to Rs22 crores.
- (4) The Company redeemed debentures of Rs20 crores at a premium of 10%. Debenture holders were issued equity shares of Rs15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was Rs1.5 crores.
- (5) Dividend paid during the year amounted to Rs11.7 crores (including Dividend distribution tax) was also paid.
- (6) Investment costing Rs12 crores were sold at a profit of Rs2.4 crores.
- (7) Rs8 crores was paid towards income tax during the year.
- (8) A new plant costing Rs21 crores was purchased in part exchange of an old plant. The book value of the old plant was Rs12 crores but the vendor took over the old plant at a value of Rs10 crores only. The balance was paid in cash to the vendor.
- (9) The following balances are also provided:

	Rs in crores 1.4.20X0	Rs in crores 31.3.20X1
Debtors	4	50
Creditors	21	23

Solution

Gamma Ltd.
Cash Flow Statement for the year ended 31st March, 20X1
(Using direct method)

Particulars	Rs in crores	Rs in crores
Cash flows from operating activities		
Cash sales (60% of 135)	81	
Cash receipts from Debtors [45+ (135x40%) - 50]	49	
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers [21+(55x80%)23]	(42)	
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	
Income tax paid	(8)	
Net cash generated from operating activities		29
Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 - 10)	(11)	
Net cash used in investing activities		3.4
Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(11.7)	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

Question 8.

From the following Balance Sheet and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 20X1:

Balance Sheet

	31 st March, 20X1	31 st March, 20X0
Liabilities		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference Share Capital	-	2,00,000
Capital Redemption Reserve	1,00,000	-
Capital Reserve	1,00,000	-
General Reserve	1,00,000	2,50,000
Profit and Loss Account	70,000	50,000
9% Debentures	2,00,000	-
Trade payables	1,15,000	1,10,000
Liabilities for Expenses	30,000	20,000
Provision for Taxation	95,000	60,000
Dividend payable	90,000	60,000
	15,00,000	12,50,000
	31st March, 20X1	31st March, 20X0
Assets		
Land and Building	1,50,000	2,00,000
Plant and Machinery	7,65,000	5,00,000

Investments	50,000	80,000
Inventory	95,000	90,000
Trade receivables	2,50,000	2,25,000
Cash and Bank	65,000	90,000
Voluntary Separation Payments	1,25,000	65,000
	15,00,000	12,50,000

Additional Information:

- (i) A piece of land has been sold out for Rs 1,50,000 (Cost – Rs 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.
- (ii) On 1st April, 20X0 a plant was sold for Rs 90,000 (Original Cost – Rs 70,000 and W.D.V. – Rs 50,000) and Debentures worth Rs1 lakh was issued at par as part consideration for plant of Rs4.5 lakhs acquired.
- (iii) Part of the investments (Cost – Rs 50,000) was sold for Rs 70,000.
- (iv) Pre-acquisition dividend received Rs 5,000 was adjusted against cost of investment.
- (v) Directors have declared 15% dividend for the current year.
- (vi) Voluntary separation cost of Rs 50,000 was adjusted against General Reserve.
- (vii) Income-tax liability for the current year was estimated at Rs 1,35,000.
- (viii) Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

Solution

**Cash Flow Statement of Ryan Limited
For the year ended 31st March, 20X1**

Particulars	Rs	
Cash flow from operating activities		
Net Profit before taxation (W.N.1)	2,45,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.3)	(20,000)	
Interest on debentures (W.N.4)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Trade payables	5,000	
Increase in accrued liabilities	10,000	
Cash generated from operations	3,23,000	
Income taxes paid (W.N.8)	(1,00,000)	
	2,23,000	
Voluntary separation payments (W.N.9)	(1,10,000)	
Net cash generated from operating activities		1,13,000
Cash flow from investing activities		
Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	

Pre-acquisition dividend received (W.N.4)	5,000	
Net cash used in investing activities		(60,000)
Cash flow from financing activities		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(60,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(78,000)
Net decrease in cash and cash equivalents		(25,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		65,000

Working Notes:

1.

Particulars	Rs
Net profit before taxation	
Retained profit	70,000
Less: Balance as on 31.3.20X0	(50,000)
	20,000
Provision for taxation	1,35,000
Dividend payable	90,000
	2,45,000

2. Land and Building Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	2,00,000	By	Cash (Sale)	1,50,000
To	Capital reserve (Profit on sale)	30,000	By	Balance c/d	1,50,000
To	Capital reserve (Revaluation profit)	70,000			
		3,00,000			3,00,000

3. Plant and Machinery Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	5,00,000	By	Cash (Sale)	90,000
To	Profit and loss account	40,000	By	Depreciation	1,35,000
To	Debentures	1,00,000	By	Balance c/d	7,65,000
To	Bank	3,50,000			
		9,90,000			9,90,000

4. Investments Account

₹ Particulars	Rs	₹ Particulars	Rs
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend (Pre-acquisition)	5,000
To Bank (Balancing figure)	25,000		
		To Balance C/d	50,000
	125,000		125,000

5. Capital Reserve Account

₹ Particulars	Rs	₹ Particulars	Rs
To Balance c/d	1,00,000	By Profit on sale of land	30,000

		By Profit on revaluation of land	70,000
	1,00,000		1,00,000

6. General Reserve Account

₹ Particulars		Rs	₹ Particulars		Rs
To Voluntary separation cost		50,000	By Balance b/d		2,50,000
To Capital redemption reserve		1,00,000			
To Balance c/d		1000000			
		2,50,000			2,50,000

7. Dividend payable Account

₹ Particulars		Rs	₹ Particulars		Rs
To Bank (Balancing figure)		60,000	By Balance b/d		60,000
To Balance c/d		90,000	By Profit & loss account		90,000
		1,50,000			1,50,000

8. Provision for Taxation Account

₹ Particulars		Rs	₹ Particulars		Rs
To Bank (Balancing figure)		1,00,000	By balance b/d		60,000
To Balance c/d		95,000	By Profit & loss account		1,35,000
		1,95,000			1,95,000

9. Voluntary Separation Payments Account

₹ Particulars		Rs	₹ Particulars		Rs
To Balance b/d		65,000	By General reserve		50,000
To Bank (Balancing figure)		1,10,000	By Balance c/d		1,25,000
		1,75,000			1,75,000

Question 9.

The Balance Sheet of New Light Ltd. for the years ended 31st March, 20X0 and 20X1 are as follows:

Liabilities	31st March 20X0 (Rs)	31st March 20X1 (Rs)	Assets	31st March 20X0 (Rs)	31st March 20X1 (Rs)
Equity share capital	12,00,000	16,00,000	Fixed Assets	32,00,000	38,00,000
10% Preference share capital	4,00,000	2,80,000	Less: Depreciation	9,20,000	11,60,000
Capital Reserve	–	40,000	Investment	22,80,000	26,40,000
General Reserve	6,00,000	7,60,000	Cash	4,00,000	3,20,000
Profit and Loss A/c	2,40,000	3,00,000	Other current assets	10,000	10,000
9% Debentures	4,00,000	2,80,000		11,10,000	13,10,000
Current liabilities	4,80,000	5,20,000			
Dividend payable	1,20,000	1,60,000			
Provision for Tax	3,60,000	3,40,000			
	38,00,000	42,80,000		38,00,000	42,80,000

Additional information:

(i) The company sold one fixed asset for Rs 1,00,000, the cost of which was Rs

- 2,00,000 and the depreciation provided on it was Rs 80,000.
- (ii) The company also decided to write off another fixed asset costing Rs 56,000 on which depreciation amounting to Rs 40,000 has been provided.
- (iii) Depreciation on fixed assets provided Rs 3,60,000.
- (iv) Company sold some investment at a profit of Rs 40,000, which was credited to capital reserve.
- (v) Debentures and preference share capital redeemed at 5% premium.
- (vi) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.3.20X0 was Rs 2,16,000. The inventory on 31.3.20X1 was correctly valued at Rs 3,00,000.
- Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.**

Solution

New Light Ltd.

Cash Flow Statement for the year ended 31st March, 20X1

A. Cash Flow from operating activities	₹
Profit after appropriation	
Increase in profit and loss A/c after inventory adjustment [₹3,00,000 - (₹2,40,000 + ₹24,000)]	36,000
Transfer to general reserve	1,60,000
Dividend payable	1,60,000
Provision for tax	3,40,000
Net profit before taxation and extraordinary item	6,96,000
Adjustments for:	
Depreciation	3,60,000
Loss on sale of fixed assets	20,000
Decrease in value of fixed assets	16,000
Premium on redemption of preference share capital	6,000
Premium on redemption of debentures	6,000
Operating profit before working capital changes	11,04,000
Increase in current liabilities (₹5,20,000 - ₹4,80,000)	40,000
Increase in other current assets [₹13,10,000 - (₹ 11,10,000 + ₹24,000)]	(1,76,000)
Cash generated from operations	9,68,000
Income taxes paid	(3,60,000)
Net Cash generated from operating activities	6,08,000
B. Cash Flow from investing activities	
Purchase of fixed assets (W.N.3)	(8,56,000)
Proceeds from sale of fixed assets (W.N.3)	1,00,000
Proceeds from sale of investments (W.N.2)	1,20,000
Net Cash from investing activities	(6,36,000)
C. Cash Flow from financing activities	
Proceeds from issuance of share capital	4,00,000
Redemption of preference share capital (₹1,20,000 + ₹6,000)	(1,26,000)
Redemption of debentures (₹ 1,20,000 + ₹ 6,000)	(1,26,000)
Dividend paid	(1,20,000)
Net Cash from financing activities	28,000
Net increase/decrease in cash and cash equivalent	Nil

during the year	
Cash and cash equivalent at the beginning of the year	10,000
Cash and cash equivalent at the end of the year	10,000

1. Working Notes:

1. Revaluation of inventory will increase opening inventory by ₹ 24,000.
 $2,16,000/90 \times 100 = ₹ 24,000$

Therefore, opening balance of other current assets would be as follows:

$$₹ 11,10,000 + ₹ 24,000 = ₹ 11,34,000$$

Due to under valuation of inventory, the opening balance of profit and loss account be increased by ₹ 24,000.

The opening balance of profit and loss account after revaluation of inventory will be
 $₹ 2,40,000 + ₹ 24,000 = ₹ 2,64,000$

2. Investment Account

₹ Particulars	Rs	₹ Particulars	Rs
To Balance b/d	4,00,000	By Bank A/c (balancing figure being investment sold)	1,20,000
To Capital reserve A/c (Profit on sale of investment)	40,000	By Balance c/d	3,20,000
	4,40,000		4,40,000

3. Fixed Assets Account

₹ Particulars	Rs	₹ Particulars	Rs
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000
To Bank A/c (balancing figure being assets purchased)	8,56,000	By Accumulated depreciation A/c	80,000
		By Profit and loss A/c (loss on sale of assets)	20,000
		By Accumulated depreciation A/c	40,000
		By Profit and loss A/c (assets written off)	16,000
		By Balance c/d	38,00,000
	40,56,000		40,56,000

4. Accumulated Depreciation Account

₹ Particulars	Rs	₹ Particulars	Rs
To Fixed assets A/c	80,000	By Balance b/d	9,20,000
To Fixed assets A/c	40,000	By Profit and loss A/c (depreciation for the period)	3,60,000
To Balance c/d	11,60,000		
	12,80,000		12,80,000

Question 10

ABC Ltd. gives you the following information. You are required to prepare Cash Flow

**Statement by using indirect methods as per AS 3 for the year ended 31.03.20X1:
Balance Sheet as on**

Liabilities	31st March 20X0	31st March 20X1	Assets	31st March 20X0	31st March 20X1
	Rs	Rs		Rs	Rs
Capital	50,00,000	50,00,000	Plant & Machinery	27,30,000	40,70,000
Retained Earnings	26,50,000	36,90,000	Less: Depreciation	(6,10,000)	(7,90,000)
Debentures	—	9,00,000		21,20,000	32,80,000
Current Liabilities			Current Assets		
Trade payables	8,80,000	8,20,000	Trade receivables	23,90,000	28,30,000
Bank Loan	1,50,000	3,00,000	Less: Provision	(1,50,000)	(1,90,000)
Liability for expenses	3,30,000	2,70,000		22,40,000	26,40,000
Dividend payable	1,50,000	3,00,000	Cash	15,20,000	18,20,000
			Marketable	11,80,000	15,00,000
			Securities	20,10,000	19,20,000
			Inventories		
			Prepaid Expenses	90,000	1,20,000
	91,60,000	1,12,80,000		91,60,000	1,12,80,000

Additional Information:

- (a) Net profit for the year ended 31st March, 20X1, after charging depreciation Rs 1,80,000 is Rs 22,40,000.
 (b) Trade receivables of Rs 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.
 (c) ABC Ltd. declared dividend of Rs 12,00,000 for the year 20X0-20X1.

Solution:

Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1

Cash flows from Operating Activities	₹
Net Profit	22,40,000
Add: Adjustment For Depreciation (₹7,90,000 – ₹6,10,000)	1,80,000
Operating Profit Before Working Capital Changes	24,20,000
Add: Decrease in Inventories (₹ 20,10,000 – ₹ 19,20,000)	90,000
Increase in Provision for Doubtful Debts (₹ 4,20,000 – ₹1,50,000) =	2,70,000
Less: Increase in Current Assets	
Trade Receivables(₹ 30,60,000 – ₹23,90,000)	6,70,000
Prepaid Expenses (₹ 1,20,000 – ₹90,000)	30,000
Decrease in Current Liabilities:	
Trade Payables (₹ 8,80,000 – ₹ 8,20,000)	60,000
Expenses Outstanding (₹ 3,30,000 – ₹ 2,70,000) 60,000	(8,20,000)
Net Cash from Operating Activities	19,60,000
Cash Flows from Investing Activities	
Purchase of Plant & Equipment (₹ 40,70,000 – ₹ 27,30,000)	13,40,000
Net Cash Used in Investing Activities	(13,40,000)
Cash Flows from Financing Activities	
Bank Loan Raised (₹ 3,00,000 – ₹ 1,50,000)	1,50,000
Issue of Debentures	9,00,000

Payment of Dividend (₹ 12,00,000 – ₹ 1,50,000)	(10,50,000)
Net Cash Used in Financing Activities	NIL
Net Increase in Cash During the Year	6,20,000
Add: Cash and Cash Equivalents as on 1.4.20x0 (₹ 15,20,000 + ₹ 11,80,000)	27,00,000
Cash and Cash Equivalents as on 31.3.20x1 (₹ 18,20,000 + ₹ 15,00,000)	33,20,000

Note: Bad debts amounting Rs 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.



Student Notes:-



Student Notes:-

COVID-19

