

# CASH FLOW STATEMENTS

## Illustration 1

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.

- (i) Loans and Advances given to the following and interest earned on them:
  - 1) to suppliers
  - 2) to employees
  - 3) to its subsidiaries companies
- (ii) Investment made in subsidiary Smart Ltd. and dividend received
- (iii) Dividend paid for the year
- (iv) TDS on interest income earned on investments made
- (v) TDS on interest earned on advance given to suppliers
- (vi) Insurance claim received against loss of fixed asset by fire Discuss in the context of AS 3 Cash Flow Statement.

## Solution

- (i) 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

- (ii) Investment made in subsidiary company and dividend received

Investing Cash flow

- (iii) Dividend paid for the year

Financing Cash Outflow

- (iv) TDS on interest income earned on investments made

Investing Cash Outflow

- (v) TDS on interest earned on advance given to suppliers

Operating Cash Outflow

- (vi) 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'.

## Illustration 2

Following are extracts of the Balance Sheets of Ajay Ltd.:

	Particulars	Notes	31.3.20X1 ₹	31.3.20X2 ₹
	<b>Equity and Liabilities</b>			
	<b>Shareholder's funds</b>			
(a)	Share capital	1	5,00,000	5,00,000
(b)	Reserve & surplus	2	50,000	90,000
	<b>Non-current liabilities</b>			
(a)	Long-term borrowings	3	5,00,000	7,50,000
	<b>Current liabilities</b>			
(a)	Other current liabilities	4	---	5,000

	<b>Assets</b>			
	<b>Non-current assets</b>			
(a)	Intangible assets	5	2,05,000	1,80,000

**Notes to accounts**

		<b>31.3.20X1</b> ₹	<b>31.3.20X2</b> ₹
<b>1</b>	<b>Share Capital</b> 50,000 Equity Shares of ₹10 each	5,00,000	5,00,000
<b>2</b>	<b>Reserve &amp; surplus</b> Profit & Loss A/c	50,000	90,000
<b>3</b>	<b>Long-term borrowings</b> 10% Debentures	5,00,000	7,50,000
<b>4</b>	<b>Other current liabilities</b> Unpaid interest	---	5,000
<b>5</b>	<b>Intangible assets</b> Goodwill	2,05,000	1,80,000

You are required to show the related items in Cash Flow Statement.

**Solution****An Extract of Cash Flow Statement for the year ending 31.3.20X2**

	₹
<b>Cash flows from operating activities:</b>	
Closing balance as per Profit & Loss A/c	90,000
Less: Opening balance as per Profit & Loss A/c	(50,000)
Add: Goodwill amortisation	25,000
Add: Interest on Debentures (Refer Note 1)	75,000
<b>Net Cash from Operating Activities</b>	<b>1,40,000</b>

**Note 1 :** Interest has been computed on the closing balance of debentures as on 31.3.20X2 assuming that all the additions/ deletions were made, if any, at the beginning of the year.

**Cash flows from financing activities:**

Proceeds from debentures (Refer Working Note)	2,50,000
Interest paid on Debentures [less unpaid]	(70,000)
<b>Net Cash from Financing Activities</b>	<b>1,80,000</b>

**Working Note:****10% Debentures Account**

Particulars	₹	Particular	₹
To Balance c/d	7,50,000	By Balance b/d	5,00,000
		By Bank A/c (Bal. fig.)	2,50,000
	7,50,000		7,50,000

**Illustration 3 (MTP Mar'24)**

From the following information, calculate cash flow from operating activities:

**Summary of Cash Account**  
**for the year ended March 31, 20X1**

Particulars	₹	Particulars	₹
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To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repayment of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	5,96,000		5,96,000

**Solution****(4 Marks)**

**Cash Flow Statement of  
for the year ended March 31, 20X1(Direct Method)**

Particulars	₹	₹
<b>Operating Activities:</b>		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchases	1,20,000	
Payment to Trade payables	1,57,000	
Office and Selling Expenses	75,000	
Payment for Income Tax	30,000	(3,82,000)
Net Cash Flow used in Operating Activities		(17,000)

**Illustration 4**

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

**Summary Cash Account**

		(₹ '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 property, plant & equipment	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)

		(₹ '000)
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from investing activities</b>		
Payments for purchase of fixed assets	(230)	
Proceeds from sale of fixed assets	128	
Net cash used in investing activities		(102)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
Net cash used in financing activities		(30)
<b>Net increase in cash and cash equivalents</b>		177
<b>Cash and cash equivalents at beginning of period</b>		35
<b>Cash and cash equivalents at end of period</b>		212

### Illustration 5

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 ₹ 3,82,500.
- 3) Opening inventory was lesser than closing inventory by ₹ 35,000.
- 4) Wages paid during the year ₹ 4,92,500.
- 5) Office and selling expenses paid during the year ₹ 75,000.
- 6) Dividend paid during the year ₹ 30,000.

- 7) Bank loan repaid during the year ₹ 2,15,000 (included interest ₹ 15,000).  
 8) Trade payables on 31st March, 20X0 exceed the balance on 31st March, 20X1 by ₹ 25,000.  
 9) Amount paid to trade payables during the year ₹ 4,60,000.  
 10) Tax paid during the year amounts to ₹ 65,000 (Provision for taxation as on 31.03.20X1 ₹ 45,000).  
 11) Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.  
 12) Depreciation on fixed assets amounts to ₹ 85,000.  
 13) Plant and machinery purchased on 15th November, 20X0 for ₹ 2,50,000.  
 14) Cash and Cash Equivalents on 31st March, 20X0 ₹ 2,00,000.  
 15) Cash and Cash Equivalents on 31st March, 20X1 ₹ 6,07,500.

**Solution****M/s MNT Ltd.**

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

Particulars	₹	₹
<b>Cash flows from Operating Activities</b>		
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
<b>Cash flows from investing activities</b>		
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
<b>Cash flows from financing activities</b>		
Bank loan repayment (including interest)	(2,15,000)	
Dividend paid	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
<b>Cash and cash equivalents at beginning of the period</b>		2,00,000
<b>Cash and cash equivalents at end of the period</b>		6,07,500

**Illustration 6**

Ryan Ltd provides you the following information at the year-end, March 31, 20X1:

	₹	₹
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
		1,78,000
Operating Expenses (including Depreciation Expense of ₹ 37,000)		(1,47,000)
		31,000
Other Income / (Expenses):		
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

**Information available:**

	31st March 20X1	31st March 20X0
	₹	₹
Plant	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
Inventory	1,44,000	1,10,000
Trade receivables	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Trade payables	50,000	43,000
Outstanding liabilities	12,000	9,000
Income taxes payable	3,000	5,000

**Analysis of selected accounts and transactions during 20X0-X1**

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

7) Issued 15,000 shares of ₹ 10 each.

8) Paid cash dividends ₹ 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**

	₹	₹
<b>Cash flows from operating activities</b>		
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 trade receivables	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in trade payables	7,000	
Increase in outstanding liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
Net cash generated from operating activities		47,000
<b>Cash flows from investing activities</b>		
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)
<b>Cash flows from financing activities</b>		
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
<b>Net increase in cash and cash equivalents</b>		31,000
<b>Cash and cash equivalents at the beginning of the period</b>		15,000
<b>Cash and cash equivalents at the end of the period</b>		46,000

**Note:** Significant non-cash adjustments: Issued ₹ 1,00,000 of bonds at face value for acquisition of plant on 31st March, 20X1.

**\*Working Note:**

	₹
Income taxes paid:	
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	5,000
	12,000

Less: Income tax liability at the end of the year	(3,000)
	9,000

**Illustration 7**

The balance sheets of Sun Ltd. as at 31st March 20X1 and 20X0 were as:

Particulars	Notes	20X1 ₹	20X0 ₹
<b>Equity and Liabilities</b>			
<b>1 Shareholder's funds</b>	1		
(a) Share capital		60,000	50,000
(b) Reserve & surplus	2	5,000	4,000
<b>2 Current liabilities</b>			
a) Trade Payables		4,000	2,500
b) Other current liabilities	3	-	1,000
(c) Short term provision (provision for tax)		1,500	1,000
<b>Total</b>		<b>70,500</b>	<b>58,500</b>
<b>Assets</b>			
<b>1 Non-current assets</b>	4		
(a) Property, Plant & Equipment		39,500	29,000
<b>2 Current assets</b>			
a) Current investments		2,000	1,000
b) Inventories		17,000	14,000
c) Trade receivables		8,000	6,000
d) Cash & cash equivalents	5	4,000	8,500
		<b>70,500</b>	<b>58,500</b>

**Notes to accounts**

		20X1 r	20X0 r
1	<b>Share Capital</b>		
	Equity Shares of ₹10 each	<u>60,000</u>	<u>50,000</u>
2	<b>Reserve &amp; surplus</b>		
	Profit and Loss Account	<u>5,000</u>	<u>4,000</u>
3	<b>Other current liabilities</b>		
	Dividend Payable	=	<u>1,000</u>
4	<b>Property, plant and equipment (at WDV)</b>		
	Building	10,000	10,000
	Fixtures	17,000	11,000
	Vehicles	<u>12,500</u>	<u>8,000</u>
	Total	<u>39,500</u>	<u>29,000</u>
5	<b>Cash and cash equivalents</b>		
	Cash and Bank	<u>4,000</u>	<u>8,500</u>

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

Particulars	₹
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Profit before tax	4,500
Tax expense: Current tax	<u>(1,500)</u>
Profit for the year	3,000
Declared dividend	<u>(2,000)</u>
Retained Profit	<u>1,000</u>

**Further information is available:**

	<b>Fixtures ₹</b>	<b>Vehicles ₹</b>
Depreciation for the year	1,000	2,500
Disposals:		
Proceeds on disposal of vehicles	—	1,700
Written down value	—	<u>(1,000)</u>
Profit on disposal		<u>700</u>

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**

	<b>₹</b>	<b>₹</b>
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from investing activities</b>		
Sale of vehicles	1,700	
Purchase of current investments	(1,000)	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
Net cash used in investing activities		(14,300)
<b>Cash flows from financing activities</b>		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(3,000)	
Net cash generated from financing activities		<u>7,000</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(4,500)</u>
<b>Cash and cash equivalents at beginning of period</b> (See Note)		8,500
<b>Cash and cash equivalents at end of period</b> (See Note)		4,000

**Note to the Cash Flow Statement**

Cash and Cash Equivalents

Bank and Cash

Cash and cash equivalents

31.3.20X1

31.3.20X0

4,000

8,500

4,000

8,500

**Working Notes:**

			₹
1.	<b>Income taxes paid</b>		
	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.	<b>Dividend paid</b>		
	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		-
			3,000
3.	<b>Property, plant and equipment acquisitions</b>		
		Fixtures	Vehicles
		₹	₹
	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

**Note:** Current investments may not be readily convertible to a known amount of cash and may not be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

**Illustration 8**

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 20X1:

	(₹ in lakhs)
Net Profit	25,000
Dividend paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to the Statement of Profit and Loss	20,000
Profit on sale of Investments	100
Carrying amount of Investment sold	27,765
Interest income received on investments	2,506
Interest expenses of the year	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,081
Purchase of Fixed assets	14,560

Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and bank balance	5,003
Closing cash and bank balance	6,988

Prepare the Cash Flow Statement for the year ended 31 March 20X1 in accordance with AS 3. (Make necessary assumptions)

### Solution

#### Star Oils Limited Cash Flow Statement for the year ended 31st March, 20X1

		(₹ in lakhs)
<b>Cash flows from operating activities</b>		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
<b>Cash flows from investing activities</b>		
Sale of assets (W.N.1)	145	
Sale of investments (27,765 + 100)	27,865	
Receipt of grant for capital projects	12	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	
Net cash used in investing activities		(22,622)
<b>Cash flows from financing activities</b>		
Proceeds from calls in arrear	2	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	(8,535)	27,502
Net increase in cash and cash equivalents		1,985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

### Working note:

1. Book value of the assets sold	185
Less : Loss on sale of assets	(40)
Proceeds on sale	145

**Illustration 9**

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 20X1 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

**Summary Cash Account for the year ended 31.3.20X1**

	₹'000		₹'000
Balance on 1.4.20X0	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Asset	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.20X1	150
	3,250		3,250

**Solution****X Ltd.**

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

	₹ '000	₹ '000
<b>Cash flows from operating activities</b>		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash generated from operating activities		250
<b>Cash flows from investing activities</b>		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at the beginning of the year		50
Cash at the end of the year		150

**Illustration 10**

Given below are the relevant extracts of the Balance Sheet and the Statement of Profit and Loss of ABC Ltd. along with additional information:

**Extract of Balance sheet**

		Particulars	Notes	31.3.20X1 (₹ in lakhs)	31.3.20X0 (₹ in lakhs)
<b>1</b>		<b>Equity and Liabilities</b>			
		<b>Current liabilities</b>			
	(a)	Trade Payables		250	230
	(b)	Short term Provisions	1	200	180

	(c)	Other current liabilities	2	70	50
1		<b>Assets</b>			
		<b>Current assets</b>			
		Inventories		200	180
		Trade Receivables		400	250
		Other current assets	3	195	180

## Statement of Profit and Loss of ABC Ltd.

for the year ended 31st March, 20X1

	Particulars	Notes	₹ in lakhs
I	Revenue from operations		4,150
II	Other income	4	100
III	Total income (I + II)		<b>4,250</b>
	<b>Expenses:</b>		
	Purchases of Stock-in-Trade		2,400
	Change in inventories of finished goods		(20)
	Employee benefits expense		800
	Depreciation expense		100
	Finance cost	5	60
	Other expenses		200
IV	<b>Total expenses</b>		<b><u>3,540</u></b>
V	Profit before tax (III – IV)		710
VI	Tax expense:		
	Current tax		200
VII	Profit for the year from continuing operations		510

**Appropriations**

Balance of Profit and Loss account brought forward	50
Transfer to general reserve	200
Dividend paid	330

**Notes to accounts:**

		20X1 (₹ in lakhs)	20X0 (₹ in lakhs)
1	Short term Provisions: Provision for Tax	200	180
2	Other current liabilities: Outstanding wages Outstanding expenses Total	50 20 70	40 10 50
3	Other current assets: Advance tax	195	180
4	Other income: Interest and dividend	100	
5	Finance cost: Interest	60	

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

**Solution****Cash Flows from Operating Activities**

	₹ in lakhs	₹ in lakhs
<b>Using Direct Method</b>		
<b>Cash Receipts:</b>		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing	4,150 + 250 – 400	<u>4,000</u>
Trade receivables (A)		
<b>Cash payments:</b>		
Cash purchases & payment to Trade payables		
Purchases + Opening Trade payables – Closing	2,400 + 230 – 250	2,380
Trade payables		
Wages and salaries paid	800 + 40 – 50	790
Cash expenses	200 + 10 – 20	190
Taxes paid – Advance tax		195
(B)		<u>3,555</u>
Cash flow from operating activities (A – B)		<u>445</u>
<b>Using Indirect Method</b>		
Profit before tax		710
Add: Non-cash items : Depreciation		100
Add: Interest : Financing cash inflow		60
Less: Interest and Dividend : Investment cash outflow		(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	<u>(130)</u>
Cash flow from operating activities		<u>445</u>

**Illustration 11**

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

- Sales for the year amounted to ₹ 135 crores out of which 60% was cash sales.
- Purchases for the year amounted to ₹ 55 crores out of which credit purchase was 80%.
- Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.
- The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹ 15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was ₹ 1.5 crores.
- Dividend paid during the year amounted to ₹ 11.7 crores.
- Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.
- ₹ 8 crores was paid towards income tax during the year.
- A new plant costing ₹ 21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹ 12 crores but the vendor took over the old plant at a value of ₹ 10 crores only. The balance was paid in cash to the vendor.
- The following balances are also provided:

	₹ in crores 1.4.20X0	₹ in crores 31.3.20X1
Debtors	45	50

Creditors	21	23
Bank	6	18.2

**Solution**

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

Particulars	₹ in crores	₹ 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 generated from 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

**Significant non-cash items:**

- Debenture-holders received equity shares of ₹ 15 crores on redemption of the debentures.
- Plant having book value of ₹ 12 crores was given in exchange of an asset costing ₹ 21 crores. The said plant was transferred at a value of ₹ 10 crores only, and ₹ 11 crores was paid for the balance dues towards the plant.

**Illustration 12**

From the following information of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.20X1:

**Ledger balances of Mr. Zen as of 20X0 and 20X1**

	As on 1.4.20X0 ₹	As on 1.4.20X1 ₹
Zen's Capital A/c	10,00,000	12,24,000
Trade payables	3,20,000	3,52,000
Mrs. Zen's loan	2,00,000	--
Loan from Bank	3,20,000	4,00,000
Land	6,00,000	8,80,000

Plant and Machinery (net block)	6,40,000	4,40,000
Inventories	2,80,000	2,00,000
Trade receivables	2,40,000	4,00,000
Cash	80,000	56,000

**Additional information:**

A machine costing ₹ 80,000 (accumulated depreciation there on ₹ 24,000) was sold for ₹ 40,000. The provision for depreciation on 1.4.20X0 was ₹ 2,00,000 and 31.3.20X1 was ₹ 3,20,000. The net profit for the year ended on 31.3.20X1 was ₹ 3,60,000.

**Solution**

**Cash Flow Statement of Mr. Zen as per AS 3  
for the year ended 31.3.20X1**

		₹
<b>(i) Cash flow from operating activities</b>		
Net Profit (given)		3,60,000
<b>Adjustments for</b>		
Depreciation on Plant & Machinery (W.N.2)	1,44,000	
Loss on Sale of Machinery (W.N.1)	16,000	1,60,000
Operating Profit before working capital changes		5,20,000
Decrease in inventories	80,000	
Increase in trade receivables	(1,60,000)	
Increase in trade payables	32,000	(48,000)
<b>Net cash generated from operating activities</b>		4,72,000
<b>(ii) Cash flow from investing activities</b>		
Sale of Machinery (W.N.1)	40,000	
Purchase of Land (8,80,000 – 6,00,000)	(2,80,000)	
<b>Net cash used in investing activities</b>		(2,40,000)
<b>(iii) Cash flow from financing activities</b>		
Repayment of Mrs. Zen's Loan	(2,00,000)	
Drawings (W.N.3)	(1,36,000)	
Loan from Bank	80,000	
<b>Net cash used in financing activities</b>		(2,56,000)
Net decrease in cash		(24,000)
Opening balance as on 1.4.20X0		80,000
Cash balance as on 31.3.20X1		56,000

**Working Notes:****1. Plant & Machinery A/c**

	₹		₹
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash – Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c – Loss on Sale (80,000 – 64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		8,40,000

**2. Provision for depreciation on Plant and Machinery A/c**

	₹		₹



To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	3,44,000		3,44,000

**3. To find out Mr. Zen's drawings:**

	₹
Opening Capital	10,00,000
Add: Net Profit	3,60,000
	13,60,000
Less: Closing Capital	(12,24,000)
Drawings	1,36,000

**Note:** Students may note that in case there is an increase in the amount of debentures/ loans during the year and the interest is required to be computed, then in such a case, students may choose either to compute interest on the closing balance of the debentures or may compute interest on opening balance for full year (in case of no repayment) and proportionate interest on additions. Suitable note for assumption may be given in the solution for this.

**Illustration 13**

What is the significance of cash flow statement? Explain in brief.

**Solution:**

Cash flow statement provides information about the changes in cash and cash equivalents of an enterprise. It identifies cash generated from trading operations and is very useful tool of planning.

**Illustration 14**

Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to AS 3.

**Solution:**

As per Para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

- The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

**Illustration 15 (MTP Oct'18)**

Classify the following activities as (a) Operating activities, (b) Investing activities (c) Financing activities (d) Cash equivalents with reference to AS 3 (Revised).

- Brokerage paid on purchase of investments
- Underwriting commission paid
- Trading commission received
- Proceeds from sale of investment
- Purchase of goodwill
- Redemption of preference shares
- Rent received from property held as investment

- (h) Interest paid on long-term borrowings
- (i) Marketable securities (having risk of change in value)
- (j) Refund of income tax received

**Solution:**

**Classification of activities with reference to AS 3**

a.	Brokerage paid on purchased of investments	Investing Activities
b.	Underwriting Commission paid	Financing Activities
c.	Trading Commission received	Operating Activities
d.	Proceeds from sale of investment	Investing Activities
e.	Purchase of goodwill	Investing Activities
f.	Redemption of Preference shares	Financing Activities
g.	Rent received from property held as investment	Investing Activities
h.	Interest paid on long term borrowings	Financing Activities
i.	Marketable securities	Not a Cash equivalent
j.	Refund of Income tax received	Operating activities

**Illustration 16 (MTP March '23)**

How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 20X2?

- (i) 10% Debentures issued: As on 01-04-20X1 ₹ 1,10,000. As on 31-03-20X2 ₹ 77,000
- (ii) Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.
- (iii) Unpaid Interest on Debentures: As on 01-04-20X1 ₹ 275  
As on 31-03-20X2 ₹ 1,175
- (iv) Debtors of ₹ 36,000 were written off against the Provision for Doubtful Debts A/c during the year.
- (v) 10% Bonds (Investments): As on 01-04-20X1 ₹ 3,50,000  
As on 31-03-20X2 ₹ 3,50,000
- (vi) Accrued Interest on Investments: As on 31-03-20X2 ₹ 10,500

**(5 Marks)**

**Solution:**

**Classification of activities with reference to AS 3 for the year ended March 31, 20X2**

A	Cash Flow from Operating Activities	
	Net Profit as per Profit & Loss A/c	xxxxx
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
B	Cash Flow from Investing Activities	
	Interest on Investments [35,000-10,500]	24,500
C	Cash Flow from Financing Activities	
	Interest on Debentures paid [11,000 - (1,175 - 275)] - outflow	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium] - outflow	(34,650)

**Note:** Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

**Illustration 17**

From the following Balance sheet of Grow More Ltd., prepare Cash Flow Statement for the year ended 31st March, 20X1 :

Particulars		Notes	31st March, 20X1	31st March, 20X0
	<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>			
A	Share capital		10,00,000	8,00,000
B	Reserves and Surplus	1	3,00,000	2,10,000
<b>2</b>	<b>Non-current liabilities</b>			
	Long term borrowings	2	2,00,000	-
<b>3</b>	<b>Current liabilities</b>			
A	Trade Payables		7,00,000	8,20,000
B	Other current liabilities	3	-	1,00,000
C	Short term provision (provision for tax)		1,00,000	70,000
	<b>Total</b>		<b>23,00,000</b>	<b>20,00,000</b>
	<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>			
A	Property, plant and Equipment	4	13,00,000	9,00,000
B	Non-Current Investments		1,00,000	-
<b>2</b>	<b>Current assets</b>			
A	Inventories		4,00,000	2,00,000
B	Trade receivables		5,00,000	7,00,000
C	Cash and Cash equivalents		-	2,00,000
	<b>Total</b>		<b>23,00,000</b>	<b>20,00,000</b>

**Notes to accounts**

No.	Particulars	31st March, 20X1	31st March, 20X0
<b>1</b>	<b>Reserves and Surplus</b>		
	General reserve	2,00,000	1,50,000
	Profit and Loss account	<u>1,00,000</u>	<u>60,000</u>
	<b>Total</b>	<b><u>3,00,000</u></b>	<b><u>2,10,000</u></b>
<b>2</b>	<b>Long term borrowings</b>		
	Debentures (issued at end of year)	2,00,000	--
<b>3.</b>	<b>Other current liabilities</b>		
	Dividend payable	=	<u>1,00,000</u>
<b>4</b>	<b>Property, plant and equipment</b>		
	Plant and machinery	7,00,000	5,00,000
	Land and building	<u>6,00,000</u>	<u>4,00,000</u>
	<b>Net carrying value</b>	<b><u>13,00,000</u></b>	<b><u>9,00,000</u></b>

(i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing ₹ 50,000 (WDV ₹ 20,000) was sold for ₹ 35,000. Purchase was also made at the year end.

(iii) ₹ 50,000 was paid towards Income tax during the year.

(iv) Construction of the building got completed on 31.03.20X1 and hence no depreciation may be charged on the same.

Prepare Cash flow Statement.

**Solution:**

**Cash Flow Statement of Grow More Ltd. for the year ended 31st March, 20X1**

**Cash Flow from Operating Activities**

		₹
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	
Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	2,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in Trade payables	(1,20,000)	
Cash generated from operations	1,60,000	
Income tax paid	(50,000)	
Net Cash generated from operating activities		1,10,000

**Cash Flow from Investing Activities**

Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)

**Cash Flow from Financing activities**

Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash generated from financing activities		3,00,000
Net decrease in cash and cash equivalents		(2,00,000)
Cash and Cash equivalents at the beginning of the year		2,00,000
Cash and Cash equivalents at the end of the year		Nil

**Working Notes:**

**1) Provision for taxation account**

	₹		₹
To Cash (Paid)	50,000	By Balance b/d	70,000

To Balance c/d	1,00,000	By Profit and Loss A/c (Balancing figure)	80,000
	1,50,000		1,50,000

**2) Plant and Machinery account**

	₹		₹
To Balance b/d	5,00,000	By Depreciation	1,25,000
To Profit and Loss A/c (profit on sale of machine)	15,000		
To Cash (Balancing figure)	3,45,000	By Cash (sale of machine)	35,000
		By Balance c/d	7,00,000
	8,60,000		8,60,000

**Illustration 18**

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

Particulars		Notes	31st March 20X1 ₹	31st March 20X0 ₹
<b>1</b>	<b>Equity and Liabilities</b>			
	<b>Shareholders' funds</b>			
A	Share capital	1	6,00,000	7,00,000
B	Reserves and Surplus	2	4,20,000	3,00,000
<b>2</b>	<b>Non-current liabilities</b>			
	Long term borrowings	3	2,00,000	-
<b>3</b>	<b>Current liabilities</b>			
A	Trade Payables		1,15,000	1,10,000
B	Other current liabilities	4	30,000	80,000
C	Short term provision (provision for tax)		95,000	60,000
	<b>Total</b>		<b>14,60,000</b>	<b>12,50,000</b>
<b>1</b>	<b>Assets</b>			
	<b>Non-current assets</b>			
A	Property, plant and Equipment	5	9,15,000	7,00,000
B	Non-Current Investments		50,000	80,000
<b>2</b>	<b>Current assets</b>			
A	Inventories		95,000	90,000
B	Trade receivables		2,50,000	2,25,000
C	Cash and Cash equivalents		50,000	90,000
D	Other Current assets		1,00,000	65,000
	<b>Total</b>		<b>14,60,000</b>	<b>12,50,000</b>

**Notes to accounts**

No.			31st March, 20X1	31st March, 20X0
<b>1.</b>	<b>Share capital</b>			
	Equity share capital		6,00,000	5,00,000
	10% Redeemable Preference share			

	capital		--	<u>2,00,000</u>
	<b>Total</b>		<b><u>6,00,000</u></b>	<b><u>7,00,000</u></b>
<b>2</b>	<b>Reserves and Surplus</b>			
	Capital redemption reserve		1,00,000	-
	Capital reserve		70,000	-
	General reserve		1,50,000	2,50,000
	Profit and Loss account		<u>1,00,000</u>	<u>50,000</u>
	<b>Total</b>		<b><u>4,20,000</u></b>	<b><u>3,00,000</u></b>
<b>3</b>	<b>Long term borrowings</b>			
	9% Debentures		<u>2,00,000</u>	--
<b>4.</b>	<b>Other current liabilities</b>			
	Dividend payable		-	60,000
	Liabilities for expenses		<u>30,000</u>	<u>20,000</u>
	<b>Total</b>		<b><u>30,000</u></b>	<b><u>80,000</u></b>
<b>5</b>	<b>Property, plant and equipment</b>			
	Plant and machinery		7,65,000	5,00,000
	Land and building		<u>1,50,000</u>	<u>2,00,000</u>
	<b>Net carrying value</b>		<b><u>9,15,000</u></b>	<b><u>7,00,000</u></b>

**Additional Information:**

- (i) A piece of land has been sold out for ₹1,50,000 (Cost – ₹1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on revaluation of land.
- (ii) On 1st April, 20X0 a plant was sold for ₹90,000 (Original Cost – ₹70,000 and W.D.V. – ₹ 50,000) and Debentures worth ₹1 lakh were issued at par as part consideration for plant of ₹4.5 lakhs acquired.
- (iii) Part of the investments (Cost – ₹50,000) was sold for ₹70,000.
- (iv) Pre-acquisition dividend received ₹5,000 was adjusted against cost of investment.
- (v) Interim dividend was declared and paid @ 15% during the current year.
- (vi) Income-tax liability for the current year was estimated at ₹1,35,000.
- (vii) Depreciation @ 15% has been charged on Plant and Machinery but no depreciation has been charged on Building.

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

	₹	₹
<b>Cash flow from operating activities</b>		
Net Profit before taxation (W.N.1)	2,75,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of land	(30,000)	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.4)	(20,000)	
Interest on debentures (2,00,000 X 9%)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Other current assets (W.N.9)	(35,000)	
Increase in Trade payables	5,000	
Increase in liabilities for expenses	10,000	

Cash generated from operations	2,88,000	
Income taxes paid (W.N.8)	(1,00,000)	
Net cash generated from operating activities		1,88,000
<b>Cash flow from investing activities</b>		
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)
<b>Cash flow from financing activities</b>		
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	(1,50,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(1,68,000)
Net decrease in cash and cash equivalents		(40,000)
Cash and cash equivalents at the beginning of the year		90,00
Cash and Cash equivalents at the end of the year		50,000

**Significant Non-cash Items:**

Debentures amounting to ₹ 1,00,000 have been issued as part consideration for acquisition of plant of ₹ 4,50,000.

**Working Notes:****1. Provision for taxation account**

	₹
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.20X0	(50,000)
	50,000
Provision for taxation	1,35,000
Dividend	90,000
	2,75,000

**2. Land and Building Account**

	₹		₹
To Balance b/d	2,00,000	By Cash (Sale)	1,50,000

To Profit and Loss A/c (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**

	₹		₹
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**

	₹		₹
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend	
To Bank (Balancing figure)	25,000	(Pre- acquisition)	5,000
		By Balance c/d	50,000
	1,25,000		1,25,000

**5. Capital Reserve Account**

	₹		₹
To Balance c/d	70,000	By Profit on revaluation of land	70,000
	70,000		70,000

**6. General Reserve Account**

	₹		₹
To Capital redemption reserve	1,00,000	By Balance b/d	2,50,000
To Balance c/d	1,50,000		
	2,50,000		2,50,000

**7. Dividend payable Account**

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

**8. Provision for Taxation Account**

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

**9. Other Current Assets Account**



	₹		₹
To Balance b/d	65,000	By Balance c/d	1,00,000
To Bank (Balancing figure)	35,000		
	1,00,000		1,00,000

**Illustration 19**

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

		Notes	₹ 31st March 20X0	₹ 31st March 20X1
		<b>Equity and Liabilities</b>		
<b>1</b>		<b>Shareholders' funds</b>		
	A	Share capital	16,00,000	18,80,000
	B	Reserves and Surplus	8,40,000	11,00,000
<b>2</b>		<b>Non-current liabilities</b>		
		Long term borrowings	4,00,000	2,80,000
<b>3</b>		<b>Current liabilities</b>		
	A	Other current liabilities	6,00,000	5,20,000
	B	Short term provision (provision for tax)	3,60,000	3,40,000
		<b>Total</b>	<b>38,00,000</b>	<b>41,20,000</b>
		<b>Assets</b>		
<b>1</b>		<b>Non-current assets</b>		
	A	Property, plant and Equipment	22,80,000	26,40,000
	B	Non-Current Investments	4,00,000	3,20,000
<b>2</b>		<b>Current assets</b>		
	A	Cash and Cash equivalents	10,000	10,000
	B	Other Current assets	11,10,000	11,50,000
		<b>Total</b>	<b>38,00,000</b>	<b>41,20,000</b>

**Notes to accounts**

No.	Particulars		31st March, 20X0	31st March, 20X1
<b>1.</b>	<b>Share capital</b>			
	Equity share capital		12,00,000	16,00,000
	10% Preference share capital		<u>4,00,000</u>	<u>2,80,000</u>
	<b>Total</b>		<b><u>16,00,000</u></b>	<b><u>18,80,000</u></b>
<b>2</b>	<b>Reserves and Surplus</b>			
	General reserve		6,00,000	7,60,000
	Profit and Loss account		<u>2,40,000</u>	<u>3,40,000</u>
	<b>Total</b>		<b><u>8,40,000</u></b>	<b><u>11,00,000</u></b>
<b>3</b>	<b>Long term borrowings</b>			
	9% Debentures		<u>4,00,000</u>	<u>2,80,000</u>
	<b>Total</b>		<b><u>4,00,000</u></b>	<b><u>2,80,000</u></b>
<b>4.</b>	<b>Other current liabilities</b>			
	Dividend payable		1,20,000	-
	Current Liabilities		<u>4,80,000</u>	<u>5,20,000</u>
	<b>Total</b>		<b><u>6,00,000</u></b>	<b><u>5,20,000</u></b>

<b>5.</b>	<b>Property, plant and equipment</b>			
	Property, plant and equipment		32,00,000	38,00,000
	Less: Depreciation		<u>(9,20,000)</u>	<u>(11,60,000)</u>
	<b>Net carrying value</b>		<b><u>22,80,000</u></b>	<b><u>26,40,000</u></b>

**Additional information:**

- (i) The company sold one property, plant and equipment for ₹ 1,00,000, the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹ 80,000.
- (ii) The company also decided to write off another item of property, plant and equipment costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.
- (iii) Depreciation on property, plant and equipment provided ₹ 3,60,000.
- (iv) Company sold some investment at a profit of ₹ 40,000.
- (v) Debentures and preference share capital redeemed at 5% premium. Debentures were redeemed at the year end.
- (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 ₹ 2,16,000. The inventory on 31.3.20X1 was correctly valued at ₹ 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**

<b>A.</b>	<b>Cash Flow from operating activities</b>	<b>₹</b>	<b>₹</b>
	Profit after appropriation		
	Increase in profit and loss A/c after inventory adjustment [ 3,40,000 – ( 2,40,000 + 24,000)]	76,000	
	Transfer to general reserve	1,60,000	
	Provision for tax	3,40,000	
	Net profit before taxation and extraordinary item	5,76,000	
	Adjustments for:		
	Depreciation	3,60,000	
	Loss on sale of property, plant and equipment	20,000	
	Decrease in value of property, plant and equipment	16,000	
	Profit on sale of investment	(40,000)	
	Premium on redemption of preference share capital	6,000	
	Interest on debentures	36,000	
	Premium on redemption of debentures	6,000	
	Operating profit before working capital changes	9,80,000	
	Increase in current liabilities		
	(₹5,20,000 – ₹4,80,000)	40,000	
	Increase in other current assets		
	[₹11,50,000 – (₹ 11,10,000 + ₹24,000)]	(16,000)	
	Cash generated from operations	10,04,000	
	Income taxes paid	(3,60,000)	
	Net Cash generated from operating activities		6,44,000

<b>B.</b>	<b>Cash Flow from investing activities</b>		
	Purchase of property, plant and equipment	(8,56,000)	
	(W.N.3)		
	Proceeds from sale of property, plant and equipment (W.N.3)	1,00,000	
	Proceeds from sale of investments (W.N.2)	1,20,000	
	Net Cash used in investing activities		(6,36,000)
<b>C.</b>	<b>Cash Flow from financing activities</b>		
	Proceeds from issuance of share capital	4,00,000	
	Redemption of preference share capital	(1,26,000)	
	(₹1,20,000 + ₹6,000)		
	Redemption of debentures	(1,26,000)	
	(₹ 1,20,000 + ₹ 6,000)		
	Dividend paid	(1,20,000)	
	Interest on debentures	(36,000)	
	Net Cash generated from financing activities		(8,000)
	Net increase/decrease in cash and cash equivalent during the year		Nil
	Cash and cash equivalent at the beginning of the year		10,000
	Cash and cash equivalent at the end of the year		10,000

**Working Notes:**

- 1) Revaluation of inventory will increase opening inventory by ₹ 24,000.  $2,16,000/90 \times 10 = ₹ 24,000$

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)

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

**3) Property, Plant and Equipment Account**

	₹		₹	₹
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000	
To Bank A/c	8,56,000	By Accumulated depreciation A/c	80,000	
(balancing figure being assets purchased)				

		By Profit and loss A/c (loss on sale of assets)	20,000	2,00,000
		By Accumulated depreciation A/c	40,000	
		By Profit and loss A/c (assets written off)	16,000	56,000
		By Balance c/d		<u>38,00,000</u>
	40,56,000			40,56,000

**4) Accumulated Depreciation Account**

To	Property, plant and equipment A/c	80,000	By	Balance b/d	9,20,000
To	Property, plant and equipment A/c	40,000	By	Profit and loss A/c (depreciation for the year)	3,60,000
To	Balance c/d	11,60,000			
		12,80,000			12,80,000

**Illustration 20**

ABC Ltd. gives you the Balance sheets as at 31st March 20X0 and 31st March 20X1. You are required to prepare Cash Flow Statement by using indirect method as per AS 3 for the year ended 31st March 20X1:

Particulars			Notes	₹ 31st March 20X0	₹ 31st March 20X1
		<b>Equity and Liabilities</b>			
<b>1</b>		<b>Shareholders' funds</b>			
	A	Share capital		50,00,000	50,00,000
	B	Reserves and Surplus		26,50,000	36,90,000
<b>2</b>		<b>Non-current liabilities</b>			
		Long term borrowings	1	-	9,00,000
<b>3</b>		<b>Current liabilities</b>			
	A	Short-term borrowings		1,50,000	3,00,000
		(Bank loan)			
	B	Trade payables		8,80,000	8,20,000
	C	Other current liabilities	2	4,80,000	2,70,000
		<b>Total</b>		<b>91,60,000</b>	<b>1,09,80,000</b>
		<b>Assets</b>			
<b>1</b>		<b>Non-current assets</b>			
	A	Property, plant and Equipment	3	21,20,000	32,80,000
<b>2</b>		<b>Current assets</b>			
	A	Current Investments		11,80,000	15,00,000
	B	Inventory		20,10,000	19,20,000
	C	Trade receivables	4	22,40,000	26,40,000
	D	Cash and Cash equivalents		15,20,000	15,20,000
	E	Other Current assets (Prepaid expenses)		90,000	1,20,000
		<b>Total</b>		<b>91,60,000</b>	<b>1,09,80,000</b>

## Notes to accounts

No.	Particulars		20X0	20X1
<b>1</b>	<b>Long term borrowings</b>			
	9% Debentures (issued at the end of year)		-	9,00,000
	<b>Total</b>		-	<b>9,00,000</b>
<b>2.</b>	<b>Other current liabilities</b>			
	Dividend payable		1,50,000	-
	Liabilities for expenses		3,30,000	2,70,000
	<b>Total</b>		<b>4,80,000</b>	<b>2,70,000</b>
<b>3</b>	<b>Property, plant and equipment</b>			
	Plant and machinery		27,30,000	40,70,000
	Less: Depreciation		(6,10,000)	(7,90,000)
	<b>Net carrying value</b>		<b>21,20,000</b>	<b>32,80,000</b>
<b>4</b>	<b>Trade receivables</b>			
	Gross amount		23,90,000	28,30,000
	Less: Provision for doubtful debts		(1,50,000)	(1,90,000)
	<b>Total</b>		<b>22,40,000</b>	<b>26,40,000</b>

## Additional Information:

- (i) Net profit for the year ended 31st March, 20X1, after charging depreciation ₹ 1,80,000 is ₹ 10,40,000.
- (ii) Trade receivables of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

## Solution:

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

Cash flows from Operating Activities	₹	₹
<b>Net Profit</b>	10,40,000	
Add: Adjustment For Depreciation (7,90,000 – 6,10,000)	1,80,000	
Add: Adjustment for Provision for Doubtful Debts (4,20,000 – 1,50,000)	2,70,000	
Operating Profit Before Working Capital Changes	14,90,000	
Add: Decrease in Inventories (20,10,000 – 19,20,000)	90,000	
	15,80,000	
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 generated from Operating Activities		7,60,000
<b>Cash Flows from Investing Activities</b>		
Investment in Current Investments	(3,20,000)	
Purchase of Plant & Machinery		

(₹ 40,70,000 – ₹ 27,30,000)		
	(13,40,000)	
Net Cash Used in Investing Activities		(16,60,000)
<b>Cash Flows from Financing Activities</b>		
Bank Loan Raised (₹ 3,00,000 – ₹ 1,50,000)	1,50,000	
Issue of Debentures	9,00,000	
Payment of Dividend	(1,50,000)	
<b>Net Cash Used in Financing Activities</b>		9,00,000
Net Increase in Cash During the Year		-
Add: Cash and Cash Equivalents as on 1.4.20X0		15,20,000
Cash and Cash Equivalents as on 31.3.20X1		15,20,000

**Note:**

1. Bad debts amounting ₹ 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.
2. Current investments (i.e. Marketable securities) may not be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

**MTP / RTP / Past Exam****Question 1 (MTP Oct'20)**

What do you mean by the term “cash and cash equivalent” as per AS 3? From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019.

Particulars	Amount (₹)
Cash balance with Bank	10,000
Fixed Deposit created on 01-11-2018 and maturing on 15-07-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund made on 01-03-2019 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India (Conversion Rate: on the day of deposit ₹ 69/USD; ₹ 70/USD as on 31-03-2019)	\$ 1,000
Debentures purchased of ₹ 10 lacs of A Ltd., which are redeemable on 31st October, 2019	90,000
Shares of Alpha Ltd. purchased on 1st January, 2019	60,000

**Solution:****(5 Marks)**

As per AS 3, Cash and cash equivalents consists of: (i) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (ii) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value. A short-term investment is one, which is due for maturity within three months from the date of acquisition. Investments in shares are not normally taken as cash equivalent, because of uncertainties associated with them as to realizable value.

**Computation of Cash and Cash Equivalents as on 31st March, 2019**

	₹
Cash balance with bank	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19	1,00,000
Bank balance in foreign currency account (\$1,000 x ₹ 70)	70,000
	1,80,000

**Note: Fixed deposit, Shares and Debentures will not be considered as cash and cash equivalents.**

**Question 2 (MTP Oct'21)**

From the following information, prepare the Cash Flow from Financing activities as per AS 3 'Cash Flow Statements' as the accountant of XYZ Limited is not able to decide and seeks your advice:

- (i) Received ₹ 4,00,000 as redemption of short-term deposit
- (ii) Proceeds of ₹ 20,00,000 from issuance of equity share capital
- (iii) Received interest of ₹ 70,000 on Govt. bonds.
- (iv) An amount of ₹ 13,00,000 incurred for purchase of goodwill
- (v) Proceeds of ₹ 5,00,000 from sale of patent.
- (vi) Proceeds of ₹ 12,00,000 from long term borrowing.
- (vii) Amount paid for redemption of debentures of ₹ 22,00,000
- (viii) Underwriting commission of ₹ 40,000 paid on issue of equity share capital
- (ix) Interest of ₹ 1,44,000 paid on long-term borrowing.

**(5 Marks)****Solution:****Statement showing Cash Flow from Financing Activities**

		₹
Cash inflow from financing activity		
Proceeds from issuance of equity share capital	20,00,000	
Proceeds from long term borrowings	12,00,000	

Total cash inflow from financing activity		32,00,000
Less: Cash outflow from financing activity		
Amount paid for redemption of debentures	22,00,000	
Underwriting commission paid	40,000	
Interest paid on long-term borrowings	1,44,000	(23,84,000)
Net cash inflow from financing activity		8,16,000

**Question 3 (MTP Sep'22, Past Exam May'18)**

Classify the following activities as

(i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.

1. Cash receipts from Trade Receivables
2. Highly liquid Marketable Securities without risk of change in value
3. Purchase of investment
4. Proceeds from long term borrowings
5. Wages and Salaries paid
6. Bank overdraft
7. Purchase of Goodwill
8. Interim dividend paid on equity shares
9. Short term Deposits
10. Underwriting commission paid

**(5 Marks)****Solution:**

- a) Operating Activities: Items 1 and 5.
- b) Investing Activities: Items 3,7 and 9
- c) Financing Activities: Items 4,6,8 and 10
- d) Cash Equivalent: 2

**Question 4 (Past Exam Nov'19) (MTP Mar'21, Apr'22, Oct'23)**

Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2019

Particulars	Amount (Rs. )
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received form associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of Rs. 8,200 was deducted on the above interest)	73,800
Purchased debentures of X Ltd., on 1st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred Rs. 9,600)	90,000

**Solution:****(5 Marks)****Cash Flow Statement from Investing Activities of Subham Creative Limited for the year ended 31-03-2019**

Cash generated from investing activities	Rs.	Rs.
Interest on loan received	70,000	
Pre-acquisition dividend received on investment made	52,600	
Unsecured loans given to subsidiaries	(5,00,000)	



Interest received on investments (gross value)	82,000	
TDS deducted on interest	(8,200)	
Sale of Plant & Machinery ₹ (90,000 – 9,600)	80,400	
Cash used in investing activities (before extra-ordinary item)		(2,23,200)
Extraordinary claim received for loss of machinery		55,000
Net cash used in investing activities (after extra-ordinary item)		(1,68,200)

**Note:**

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.

The investments made in debentures are for short-term, it will be treated as 'cash equivalent' and will not be considered as outflow in cash flow statement.

**Question 5 (Past Exam July'21)**

Prepare cash flow statement of Gama Limited for the year ended 31st March, 2021 in accordance with AS-3(Revised) from the following cash account summary:

**Cash summary Account**

Inflows	₹ ('000)	Outflows	₹ ('000)
Opening Balance	945	Payment to suppliers	54,918
Receipts from Customers	74,682	Purchase of Investments	351
Sale of Investments (Cost ₹ 4,05,000)	459	Property, plant and equipment acquired	6,210
Issue of Shares	8,100	Wages and salaries	1,863
Sale of Property, Plant & equipment	3,456	Payment of Overheads	3,105
		Taxation	6,561
		Dividends	2,160
		Repayment of Bank Overdraft	6,750
		Interest paid on Bank Overdraft	1,350
		Closing Balance	4,374
	<b>87,642</b>		<b>87,642</b>

**Solution:****(5 Marks)****Gama Limited Cash Flow Statement for the Year Ended 31st March 2021**

Particulars	Amount (₹'000)	Amount (₹'000)
<b>Cash flow from Operating Activities:</b>		
Cash receipts from customers	74,682	
Cash payments to suppliers	(54,918)	
Cash payments for wages & salaries	(1,863)	
Cash payments of overheads	(3,105)	
Cash Generated from Operations	14,796	
Payment of Taxation	(6,561)	
<b>Net Cash from Operating Activities</b>		8,235
<b>Cash Flow from Investing Activities:</b>		
Proceeds from sale of investments	459	
Proceeds from sale of Property, Plant and Equipment	3,456	
Purchase of Investments	(351)	

Purchase of Property, Plant and Equipment	(6,210)	
<b>Net Cash Used in Investing Activities</b>		(2,646)
<b>Cash Flow from Financing Activities:</b>		
Proceeds from issue of shares	8,100	
Payment of Dividend	(2,160)	
Repayment of Bank Overdraft	(6,750)	
Interest paid on Bank Overdraft	(1,350)	
<b>Net Cash Used in Financing Activities</b>		(2,160)
<b>Net Increase in Cash &amp; Cash Equivalent</b>		3,429
<b>Cash and Cash Equivalent in the Beginning of the year</b>		945
<b>Cash and Cash Equivalent in the end of the year</b>		4374

**Question 6 (Past Exam, Dec'21)**

Following are the extracts from the Balance Sheet of ABC Ltd.

<b>Liabilities</b>	<b>31.3.2020</b>	<b>31.3.2021</b>
	<b>(₹)</b>	<b>(₹)</b>
Equity Share Capital	25,00,0000	35,60,000
10% Preference Share Capital	7,00,000	6,00,000
Securities Premium Account	5,00,000	5,50,000
Profit & Loss A/c	20,00,000	28,00,000

Equity Share Capital for the year ended 31st March, 2021 includes ₹ 60,000 of equity shares issued to Grey Ltd. at par for supply of Machinery of ₹ 60,000; Profit & Loss account on 31st March, 2021 includes ₹ 50,000 of dividend received on Equity shares invested in X Ltd; Show how the related items will appear in the Cash Flow Statement of ABC Ltd. as per AS-3 (Revised) **(5 Marks)**

**Solution:**

**The related items given in the question will appear in the Cash Flow Statement of ABC Limited for the year ended 31st March, 2021 as follows:**

	<b>₹</b>	<b>₹</b>
Cash flows from operating activities		
Closing Balance as per Profit and Loss Account	28,00,000	
Less: Opening Balance as per Profit and Loss Account	(20,00,000)	
	8,00,000	
Less: Dividend received	50,000	
		7,50,000
Cash flows from investing activities		
Dividend received		50,000
Cash flows from financing activities		
Proceeds from issuance of share capital		
Equity shares issued for cash ₹	10,00,000	
Proceeds from securities premium		
(₹ 5,50,000 – 5,00,000) ₹ 50,000	10,50,000	
Less: Redemption of Preference shares (₹ 7,00,000 – ₹ 6,00,000)	(1,00,000)	9,50,000

**Note:**

1. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the cash flow statement.
2. ABC Ltd. has been considered as a non-financial company in the given answer.

**Question 7 (Past Exam May'22)**

The following information is provided by Alpha Limited, for the year ended 31st March, 2022:

- (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 40 lakhs;
- (ii) Depreciation on Fixed Assets ₹ 10 lakhs;
- (iii) Discount on issue of Debentures written of ₹ 60,000;
- (iv) Interest on Debentures paid ₹ 7,00,000;
- (v) Book value of investments ₹ 6 lakhs (Sale of Investments for ₹ 6,40,000);
- (vi) Interest received on investments ₹ 1,20,000;
- (vii) Compensation received ₹ 1,80,000 by the company in a suit filed.
- (viii) Income tax paid ₹ 21,00,000
- (ix) Current assets and current liabilities in the beginning and at the end of the year were as detailed below:

	As on 31.3.2021 ₹	As on 31.3.2022 ₹
Stock	24,00,000	26,36,000
Sundry Debtors	4,16,000	4,26,200
Cash in hand	3,92,600	70,600
Bills Receivable	1,00,000	80,000
Bills Payable	90,000	80,000
Sundry Creditors	3,32,000	3,42,600
Outstanding Expenses	1,50,000	1,63,600

You are required to prepare Cash Flow Statement from Operating Activities in accordance with AS-3 (revised) using the indirect method for the year ended 31st March, 2022. **(5 Marks)**

**Solution:****Alpha Ltd. Cash Flow Statement (from Operating Activities) for the year ended 31st March, 2022**

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		40,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	10,00,000	
Discount on issue of debentures	60,000	
Interest on debentures paid	7,00,000	
Interest on investments received	(1,20,000)	
Profit on sale of investments	(40,000)	16,00,000
Operating profit before working capital changes		56,00,000
Adjustments for:		
Increase in inventory	(2,36,000)	
Increase in Sundry Debtors	(10,200)	
Decrease in Bills receivables	20,000	
Increase in Sundry Creditors	10,600	
Increase in Bills payables	(10,000)	
Increase in outstanding expenses	13,600	(2,12,000)
Cash generated from operations		53,88,000
Income tax paid		(21,00,000)
Cash flow from ordinary items		32,88,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,80,000
Net cash flow from operating activities		34,68,000

**Question 8 (Past Exam Nov'22)**

Ridgeway Limited, a Non-Financial company has the following activities:

- (i) Dividend paid for the year.
- (ii) TDS on interest income earned on investments made.
- (iii) Loans and advances given to suppliers and interest earned from them.
- (iv) Deposit with bank for a term of two years.
- (v) Highly liquid Marketable Securities (without risk of change in value).
- (vi) Investments made and dividends earned on them.
- (vii) Insurance claims received against loss of stock or loss of profits.
- (viii) Loans and advances given to subsidiaries and interest earned from them.
- (ix) Issue of Bonus Shares.
- (x) Term loan repaid.

You are required to classify the above activities in Cash Flow Statement as per 'AS-3';

**(5 Marks)**

**Solution:**

No.	Activities	
(i)	Dividend paid for the year	Financing
(ii)	TDS on interest income earned on investments made	Investing
(iii)	Loans and advances given to suppliers and interest earned from them	Operating
(iv)	Deposit with bank for a term of two years	Investing
(v)	Highly liquid Marketable Securities (without risk of change in value)	Cash Equivalent
(vi)	Investments made and dividends earned on them	Investing
(vii)	Insurance claims received against loss of stock or loss of profits	Operating
(viii)	Loans and advances given to subsidiaries and interest earned from them	Investing
(ix)	Issue of Bonus Shares	No Cash Inflow/Cash outflow
(x)	Term Loan repaid	Financing

**Question 9 (Past Exam May'23)**

The summarized Balance Sheets of Flora Limited for the year ended 31st March, 2022 and 31st March, 2023 are as below:

Assts	31/03/2023 (₹)	31/03/2022 (₹)
Goodwill	15,000	28,000
Land	5,75,000	6,00,000
Furniture and Fixtures	48,000	44,000
Vehicles	22,000	28,000
Office Equipment	21,000	-
Long-term Investments	60,000	1,10,000
Stock-in-hand	96,000	88,000
Bills Receivables	18,150	14,500
Trade Receivables	46,000	52,000
Cash and Bank Balances	1,29,850	34,500
Total	10,31,000	9,99,000
Liabilities	31/03/2023 (₹)	31/03/2022 (₹)

Equity Shares Capital	6,80,000	5,00,000
General Reserves	90,000	60,000
Profit and Loss Account	93,000	52,000
Capital Reserve	75,000	-
8% Debentures of ₹ 100 each	-	3,00,000
Loan from Mr. Andrew	-	15,000
Bills Payables	11,000	13,000
Trade Payables	49,000	45,000
Creditors for Equipment	10,500	-
Outstanding Expenses	4,500	3,000
Provision for Taxation	18,000	11,000
Total	10,31,000	9,99,000

Additional Information:

- (i) On 1st April, 2022, one of the vehicles was sold for ₹ 3,000. No new purchases were made during the year.
- (ii) A part of the total land was sold for ₹ 1,25,000 (Cost ₹ 1,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year. (iii) Depreciation provided during the year-
- Furniture and Fixtures ₹ 5,000
  - Vehicles ₹ 2,200
- (iii) Interim dividend of 5,000 was paid during the year.
- (iv) Provision for taxation for the year 2022-2023 was ₹ 16,000.
- (v) 8% Debentures were redeemed at par after half year interest payment on 30th September, 2022.
- (vi) Part of the long-term investments were sold at a profit of 8,000.
- (vii) Interest income received during the year on long-term investment was 6,500.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2023 using indirect method. (All workings should form part of the answer) **(10 Marks)**

**Solution:**

Cash Flow Statement of Flora Limited from Operating Activities For the year ended 31st March, 2023

	₹	₹
Net profit before taxation (W.N.1)		92,000
Adjustment: Depreciation on Furniture & Fixtures	5,000	
Depreciation on Vehicles	2,200	
Profit on sale of land (₹ 125000 - ₹ 100000)	(25,000)	
Loss on sale (Vehicle)	800	
Profit on sale of long-term investments	(8,000)	
Interest received	(6,500)	
Interest on debentures	12,000	
Goodwill written off	13,000	(6,500)
Operating profit before working capital changes		85,500
Increase in Stock in Hand	(8,000)	
Increase in Bills Receivables	(3,650)	
Decrease in Trade Receivables	6,000	
Decrease in Bills payable	(2,000)	
Increase in Trade Payables	4,000	
Increase in outstanding expenses	1,500	(2,150)

Cash generated from Operations		83,350
Less: Income taxes paid		9,000
Cash flow from Operating activities		74,350

**Alternative presentation:**

Cash Flow Statement of Flora Limited from Operating Activities For the year ended 31st March, 2023

		₹
Net profit before taxation (W.N. 1)		92,000
Adjustment: Depreciation on Furniture & fixtures	5,000	
Depreciation on Vehicles	2,200	
Profit on sale of land	(25,000)	
Loss on sale (Vehicle)	800	
Profit on sale of long- term investments	(8,000)	
Interest received	(6,500)	
Interest on debentures	12,000	
Goodwill written off	13,000	(6,500)
Operating profit before working capital changes		85,500
Increase in inventory	(8,000)	
Decrease in Trade receivables*	2,350	
Increase in Trade payables**	2,000	
Increase in outstanding expenses	1,500	(2,150)
Cash generated from Operations		83,350
Less: Income taxes paid		9,000
Cash flow from Operating activities		74,350

\*[(18,150 +46,000) - (14,500 + 52,000)] \*\* [(11,000 49,000) - (13,000+45,000)]

**Working Notes:****1. Net Profit before Taxation**

Increases in Profit and Loss A/c (93,000-52,000)	41,000
Increases in General Reserve (90,000-60,000)	30,000
Interim dividend Paid	5,000
Transfer – provision for Taxation	16,000
Increase in retained earnings (Net Profit before Taxation)	92,000

**2. Provision for Taxation Account**

	₹		₹
To Bank (Balancing figure)	9,000	By Balance b/d	11,000
To Balance c/d	18,000	By Profit and loss account	16,000
	27,000		27,000

**3. Vehicles Account**

<b>Particulars</b>	<b>(₹)</b>
Opening Balance	28,000
Less: Depreciation	(2,200)
Less: Closing Balance	(22,000)
Book value of vehicle sold	3,800
Less: Sale Value	(3,000)
Loss on sale of Vehicle	800

**Question 10 (RTP Nov '23)**

On the basis of the following information prepare a Cash Flow Statement for the year ended 31st

March, 2023 (Using direct method):

- (i) Total sales for the year were ₹ 796 crores out of which cash sales amounted to ₹ 524 crores.
- (ii) Receipts from credit customers during the year, totalled ₹ 268 crores;
- (iii) Purchases for the year amounted to ₹ 440 crores out of which credit purchase was 80%;

Balance in creditors as on	1.4.2022	₹ 168 crores
	31.3.2023	₹ 184 crores

- (i) Suppliers of other consumables and services were paid ₹ 38 crores in cash;
- (ii) Employees of the enterprises were paid 40 crores in cash.
- (iii) Fully paid 9% Preference shares of the face value of ₹ 64 crores were redeemed; Equity shares of the face value of ₹ 40 crores were allotted as fully paid up at premium of 20%;
- (iv) 10% Debentures of ₹ 40 crores at a premium of 10% were redeemed; Debenture holders were issued equity shares in lieu of their debentures.
- (v) ₹ 52 crores were paid by way of income tax.
- (vi) A new machinery costing ₹ 50 crores was purchased in part exchange of an old machinery. The book value of the old machinery was ₹ 26 crores; Through the negotiations, the vendor agreed to take over the old machinery at a higher value of ₹ 30 crores. The balance was paid in cash to the vendor.
- (vii) Investment costing ₹ 36 cores were sold at a loss of ₹ 4 crores;
- (viii) Dividends totaling ₹ 30 crores was also paid;
- (ix) Debenture interest amounting ₹ 4 crore was paid;
- (x) Non-cash expenditure incurred during the current year was 1.2 crores.
- (xi) Dividends declared during the current year was 15% on equity share capital (ESC = ₹120 crores);
- (xii) On 31st March 2022, Balance with Bank and Cash on hand totalled ₹ 4 crores.

**Solution:**

**Cash flow statement (using direct method) for the year ended 31st March, 2023**

	(₹ in crores)	(₹ in crores)
Cash flow from operating activities		
Cash sales	524	
Cash collected from credit customers	268	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(502)	
Cash from operations	290	
Less: Income tax paid	(52)	
Net cash from operating activities		238
Cash flow from investing activities		
Net Payment for purchase of Machine (50 – 30)	(20)	
Proceeds from sale of investments	32	
Net cash from investing activities		12
Cash flow from financing activities		
Redemption of Preference shares	(64)	
Proceeds from issue of Equity shares	48	
Debenture interest paid	(4)	
Dividend Paid	(30)	

Net cash used in financing activities		(50)
Net increase in cash and cash equivalents		200
Add: Cash and cash equivalents as on 1.04.2022		4
Cash and cash equivalents as on 31.3.2023		204

**Working Note:****Calculation of cash paid to suppliers of goods and services and to employees**

	(₹ in crores)
Opening Balance in creditors Account	168
Add: Purchases (440x .8)	352
Total	520
Less: Closing balance in Creditors Account	184
Cash paid to suppliers of goods	336
Add: Cash purchases (440x .2)	88
Total cash paid for purchases to suppliers (a)	424
Add: Cash paid to suppliers of other consumables and services (b)	38
Add: Payment to employees (c)	40
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	502

**Question 11 (RTP May'24)**

From the following particulars calculate cash flows from Operating activities:

Particulars	₹
Retained earning	17,000
Depreciation	4,000
Loss on Sale of Machinery	3,000
Provision for tax	7,000
Interim Dividend paid during the year	10,000
Dividend paid during the year	8,000
Premium payable on redeemable Preference Shares	2,000
Profit on sale of investment	10,000
Refund of tax	1,000

**Additional Information:**

	31.3.22 ₹	31.3.23 ₹
Trade Receivable	10,000	12,000
Trade Payable	7,000	15,000
Provision for Tax	4,000	7,000
Prepaid Expenses	2,000	1,000
Outstanding Expenses	1,400	1,000

**Solution:****Calculation of Cash Flow from Operating Activities**

Particulars	Amount ₹
Retained earnings	17,000
Add: Depreciation	4,000



Add: Loss on sale of Machinery	3,000
Add: Premium Payable on redeemable Preference Shares	2,000
Add: Dividend paid	8,000
Add: Interim dividend paid during the year	10,000
Add: provision for tax made during the current year	7,000
Less: Refund of tax	(1,000)
Less: Profit on Sale of Investment	(10,000)
Operating Profit before Working Capital Changes	40,000
Add: Decrease in Prepaid Expenses	1,000
Less: Increase in Trade receivable	(2,000)
Add: Increase in Trade Payable	8,000
Less: Decrease in Outstanding Expenses	(400)
Cash generated from (Net of refund) operation	46,600
Less: Income tax paid (4,000 – 1,000)	(3,000)
<b>Net Cash flow operating activities</b>	<b>43,600</b>

**MCQs**

1. While preparing cash flow statement, conversion of debt to equity
  - (a) Should be shown as a financing activity.
  - (b) Should be shown as an investing activity.
  - (c) Should not be shown as it is a non-cash transaction
  - (d) Should not be shown as operating activity.
2. Which of the following would be considered a 'cash-flow item from an "investing" activity'?
  - (a) Cash outflow to the government for payment of taxes.
  - (b) Cash outflow to purchase bonds issued by another company.
  - (c) Cash outflow to shareholders as dividends
  - (d) Cash outflow to make payment to trade payables.
3. All of the following would be included in a company's operating activities except:
  - (a) Income tax payments
  - (b) Collections from customers or Cash payments to suppliers
  - (c) Dividend payments
  - (d) Office and selling expenses.
4. Hari Uttam, a stock broking firm, received ₹ 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?
  - (a) Operating Activities.
  - (b) Investing Activities.
  - (c) Financing Activities.
  - (d) Non-cash transaction
5. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as
  - (a) Operating activity.
  - (b) Financing activity.
  - (c) Investing activity.
  - (d) Non-cash transaction

**ANSWERS/ HINTS****MCQ**

1. (c)    2. (b)    3. (c)    4. (a)    5. (c)