

AS 3 – CASH FLOW STATEMENT

Illustration 1

Classify the following activities as (a) Operating Activities, (b) Investing Activities, (c) Financing Activities (d) Cash Equivalents.

- (a) Purchase of Machinery.
- (b) Proceeds from issuance of equity share capital
- (c) Cash Sales.
- (d) Proceeds from long-term borrowings.
- (e) Cheques collected from Trade receivables.
- (f) Cash receipts from Trade receivables.
- (g) Trading Commission received.
- (h) Purchase of investment.
- (i) Redemption of Preference Shares.
- (j) Cash Purchases.
- (k) Proceeds from sale of investment
- (l) Purchase of goodwill.
- (m) Cash paid to suppliers.
- (n) Interim Dividend paid on equity shares.
- (o) Wages and salaries paid.
- (p) Proceed from sale of patents.
- (q) Interest received on debentures held as investment.
- (r) Interest paid on Long-term borrowings.
- (s) Office and Administration Expenses paid
- (t) Manufacturing Overheads paid.
- (u) Dividend received on shares held as investments.
- (v) Rent Received on property held as investment.
- (w) Selling and distribution expense paid.
- (x) Income tax paid
- (y) Dividend paid on Preference shares.
- (z) Underwritings Commission paid.
- (aa) Rent paid.
- (bb) Brokerage paid on purchase of investments.
- (cc) Bank Overdraft
- (dd) Cash Credit
- (ee) Short-term Deposits
- (ff) Highly liquid Marketable Securities (without risk of change in value)
- (gg) Refund of Income Tax received.

Solution

- (a) Operating Activities: c, e, f, g, j, m, o, s, t, w, x, aa & gg.

(b) Investing Activities: a, h, k, l, p, q, u, v, bb & ee.

(c) Financing Activities: b, d, i, n, r, y, z, cc & dd.

(d) Cash Equivalent: ff.

Illustration 2

X Ltd. purchased debentures of ₹10 lacs of Y Ltd., which are redeemable within three months. How will you show this item as per AS 3 while preparing cash flow statement for the year ended on 31st March, 20X1?

Solution

As per AS 3 on 'Cash flow Statement', cash and cash equivalents consists of cash in hand, balance with banks and short-term, highly liquid investments*. If investment, of ₹10 lacs, made in debentures is for short-term period then it is an item of 'cash equivalents'.

However, if investment of ₹10 lacs made in debentures is for long-term period then as per AS 3, it should be shown as cash flow from investing activities.

Illustration 3

Classify the following activities as per AS 3 Cash Flow Statement:

- i. Interest paid by financial enterprise
- ii. Tax deducted at source on interest received from subsidiary company
- iii. Deposit with Bank for a term of two years
- iv. Insurance claim received towards loss of machinery by fire
- v. Bad debts written off

Solution

- i. Interest paid by financial enterprise
Cash flows from operating activities
- ii. TDS on interest received from subsidiary company
Cash flows from investing activities
- iii. Deposit with bank for a term of two years
Cash flows from investing activities
- iv. Insurance claim received against loss of fixed asset by fire
Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'
- v. Bad debts written off
It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

Illustration 4

Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 20X1:

Cash Flow (Abstract)

Inflows	₹	Outflows	₹
Opening balance:		Payment for Account Payables	90,000
Cash	10,000	Salaries and wages	25,000
Bank	70,000	Payment of overheads	15,000
Share capital – shares issued	5,00,000	Property, plant and equipment acquired	4,00,000

Collection on account of Trade Receivables	3,50,000	Debentures redeemed	50,000
Sale of Property, plant and equipment	70,000	Bank loan repaid	2,50,000
		Taxation	55,000
		Dividends	1,00,000
		Closing balance:	
		Cash	5,000
		Bank	10,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 20X1 in accordance with Accounting Standard 3.

Solution

Cash Flow Statement for the year ended 31.3.20X1

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	
Income tax paid	(55,000)	
Net cash generated from operating activities		1,65,000
Cash flow from investing activities		
Payment for purchase of Property, plant and equipment	(4,00,000)	
Proceeds from sale of Property, plant and equipment	70,000	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Dividends paid	(1,00,000)	
Net cash used in financing activities		1,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

Illustration 5

Prepare Cash Flow from Investing Activities of M/s. Creative Furnishings Limited for the year ended 31-3-20X1.

Particulars	₹
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Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(TDS of ₹ 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred ₹ 9,600)	84,000

Solution

**Cash Flow Statement from Investing Activities of
M/s Creative Furnishings Limited for the year ended 31-03-20X1**

Cash generated from investing activities	₹	₹
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	(4,85,000)	
Interest received on investments (gross value)	76,200	
TDS deducted on interest	(8,200)	
Sale of plant	<u>74,400</u>	
Cash used in investing activities (before extra ordinary item)		(1,97,700)
Extraordinary claim received for loss of plant		<u>49,600</u>
Net cash used in investing activities (after extra ordinary item)		<u>(1,48,100)</u>

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and, therefore, not considered for preparing cash flow from investing activities.
2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.

Illustration 6

What are the main features of the Cash Flow Statement?

Solution:

According to AS 3 on "Cash Flow Statement", cash flow statement deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise during the given period from operating, investing and financing activities. Cash flows from operating activities can be reported using either (a) the direct method, or (b) the indirect method. A cash flow statement when used in conjunction with the other financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency), and its ability to affect the amount and timing of cash flows in order to adapt to changing circumstances and opportunities.

Illustration 7

Mayuri Ltd. acquired Plant and Machinery for ₹ 25 lakhs. During the same year, it also sold Furniture and Fixtures for ₹ 4 lakhs. Can the company disclose, Net Cash Outflow towards purchase of Fixed Assets ₹ 21 lakhs (i.e., 25 lakhs – 4 lakhs) in the Cash Flow Statement?

Solution:

As per AS 3, Cash Flow Statements, an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except in the case of:

- cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

In the given case, since the purchase of Plant and Machinery and disposal of Furniture and Fixtures do not fall in the criteria of exception mentioned above, the same should be presented on a gross basis as an outflow of ₹ 25 lakhs and an inflow of ₹ 4 lakhs. Presentation of net cash outflow of ₹ 21 lakhs is not permitted as per AS 3.

Illustration 8

How would the following cash flows be classified in accordance with AS 3?

- Corporate Income Tax paid amounting to ₹ 70 lakhs during the reporting period.
- Payment of advance tax ₹ 8,75,000 out of which ₹ 75,000 was towards capital gains arising on account of sale of assets during the reporting period.
- Fixed Deposits withdrawn by customers of State Bank of India ₹ 3 crores.

Solution:

As per AS 3, the given cash flows shall be recorded as under:

Corporate Income Tax paid amounting to ₹ 70 lakhs during the reporting period.	₹ 70 lakhs: Operating Cash Flows
Payment of advance tax ₹ 8,75,000 out of which ₹ 75,000 was towards capital gains arising on account of sale of assets during the reporting period.	₹ 8,00,000: Operating Cash Flows ₹ 75,000: Investing Cash Flows
Fixed Deposits withdrawn by customers of State Bank of India ₹ 3 crores.	₹ 3 crores: Operating Cash Flows for State Bank of India.

Illustration 9 (RTP Sep'24)

Money 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

Discuss in the context of AS 3 Cash Flow Statement.

Solution:

Treatment as per AS 3 'Cash Flow Statement'

- i. Loans and advances given and interest earned
 - 1) to suppliers - Cash flows from operating activities
 - 2) to employees - Cash flows from operating activities
 - 3) to its subsidiary companies - Cash flows from investing activities
- ii. Investment made in subsidiary company and dividend received - Cash flows from investing activities

- iii. Dividend paid for the year - Cash flows from financing activities

Illustration 10

From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-20X2 as per AS 3.

Particulars	Amount (₹)
Balance as per the Bank Statement	25,000
Cheque issued but not presented in the Bank	15,000
Short Term Investment in liquid equity shares of ABC Limited	50,000
Fixed Deposit created on 01-11-20X1 and maturing on 15-04-20X2	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund on 01-03-20X2 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India	\$ 1,000
(Conversion Rate: On the day of deposit ₹ 69/USD as on 31-03-20X2 ₹ 70/USD)	

Solution:

Computation of Cash and Cash Equivalents as on 31st March, 20X2

	₹
Cash balance with bank (₹ 25,000 less ₹ 15,000)	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.20X2	1,00,000
Bank balance in foreign currency account (\$1,000 x ₹ 70)	70,000
	1,80,000

Note: Short term investment in liquid equity shares and fixed deposit will not be considered as cash and cash equivalents.

Illustration 11

Z Ltd. has no Foreign Currency Cash Flow during the reporting period. It held a deposit in a bank in France. The balances as at the beginning of the year and at the end of the year were € 100,000 and € 105,000 respectively. The exchange rate at the beginning of the year was € 1 = ₹ 82, and at the end of the year was € 1 = ₹ 85. The increase in the deposit balance of € 5,000 was on account of interest credited on the last day of the reporting period. The deposit was reported at ₹ 82,00,000 in the opening balance sheet and at ₹ 89,25,000 in the closing balance sheet. You are required to show how these transactions would be presented in the Cash Flow Statement as per AS 3.

Solution:

The Statement of Profit and Loss was credited on account of:

Interest Income: € 5,000 x ₹ 85 = ₹ 4,25,000

Exchange difference = € 100,000 x (₹ 85 – ₹ 82) = ₹ 3,00,000

In preparing the Cash Flow Statement, the exchange difference of ₹ 3,00,000 should be deducted from the Net Profit before taxes, since it is a non-cash item. However, in order to reconcile the opening balance of the Cash and Cash Equivalents with its closing balance, the Exchange Difference of ₹ 3,00,000 should be added to the opening balance in a Note to the Cash Flow Statement.,

Cash Flows arising from transactions in a Foreign Currency shall be recorded in Z Ltd.'s reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow.

MTP / RTP / Past Exam**Question 1 (MTP Oct'19, Oct '22) (RTP May 19)**

J Ltd. presents you the following information for the year ended 31st March, 2019:

	(Rs. in lacs)
(i) Net profit before tax provision	36,000
(ii) Dividend paid	10,202
(iii) Income-tax paid	5,100
(iv) Book value of assets sold	222
Loss on sale of asset	48
(v) Depreciation debited to P & L account	24,000
(vi) Capital grant received - amortized to P & L A/c	10
(vii) Book value of investment sold	33,318
Profit on sale of investment	120
(viii) Interest income from investment credited to P & L A/c	3,000
(ix) Interest expenditure debited to P & L A/c	12,000
(x) Interest actually paid (Financing activity)	13,042
(xi) Increase in working capital	67,290
[Excluding cash and bank balance]	
(xii) Purchase of Property, Plant & Equipment	22,092
(xiii) Expenditure on construction work	41,688
(xiv) Grant received for capital projects	18
(xv) Long term borrowings from banks	55,866
(xvi) Provision for Income-tax debited to P & L A/c	6,000
Cash and bank balance on 1.4.2018	6,000
Cash and bank balance on 31.3.2019	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

(12 Marks)

Solution:

Cash Flow Statement as per AS 3

		Rs. in lacs
Cash flows from operating activities:		36,000
Net profit before tax provision		
Add: Non cash expenditures:		
Depreciation	24,000	
Loss on sale of assets	48	
Interest expenditure (non operating activity)	12,000	36,048

		72,048
Less: Non cash income		
Amortization of capital grant received	(10)	
Profit on sale of investments (non operating income)	(120)	
Interest income from investments (non operating income)	(3,000)	3,130
Operating profit		68,918
Less: Increase in working capital		(67,290)
Cash from operations		1,628
Less: Income tax paid		(5,100)
Net cash generated from operating activities		(3,472)
Cash flows from investing activities:		
Sale of assets (222 - 48)	174	
Sale of investments (33,318+120)	33,438	
Interest income from investments	3,000	
Purchase of Property, Plant & Equipment	(22,092)	
Expenditure on construction work	(41,688)	
Net cash used in investing activities		(27,168)
Cash flows from financing activities:		
Grants for capital projects	18	
Long term borrowings	55,866	
Interest paid	(13,042)	
Dividend paid	(10,202)	
Net cash from financing activities		32,640
Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2018		6,000
Cash and bank balance as on 31.3.2019		8,000

Question 2 (RTP Nov 18, Nov'22) (MTP March '23)

The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarised as follows:

	2018 (₹)	2017 (₹)
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		

Trade Payables	8,000	5,000
Income tax payable	3,000	2,000
Declared Dividends	4,000	2,000
Property, Plant & Equipment (at W.D.V) :	1,44,000	1,17,000
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	1,17,000

The Profit and Loss account for the year ended 31st March, 2018 disclosed:

	₹
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building ₹ 1,000.
2. Depreciation on Furniture & Fixtures for the year ₹ 2,000.
3. Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.
4. Purchase investments for ₹ 6,000.
5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.
6. You are required to prepare Cash Flow Statement as per AS-3 using indirect method. **(15 Marks)**

Solution:

Harry Ltd.

Cash Flow Statement for the year ended 31st March, 2018

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		

Depreciation (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

* Dividend declared for the year ended 31st March, 2017 amounting ₹ 2,000 must have been paid in the year 2017-18. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2017-18.

Working Notes:

1. Calculation of Income taxes paid

	₹	
Income tax expense for the year	3,000	
Add: Income tax liability at the beginning of the year	2,000	
		5,000
Less: Income tax liability at the end of the year	(3,000)	
		2,000

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	—	2,000
	36,000	32,000
Less: W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

Question 3 (MTP Nov'21, April 23 Sep '23) (Past Exam Nov '20) (RTP May 20)

The following figures have been extracted from the books of Manan Limited for the year ended on 31.3.2022. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs:

- (a) Depreciation on Property, Plant & Equipment ₹ 7;50 lakhs;
- (b) Discount on issue of Debentures written off ₹ 45,000;
- (c) Interest on Debentures paid ₹ 5,25,000;
- (d) Book value of investments ₹ 4;50 lakhs (Sale of Investments for ₹ 4,80,000);
- (e) Interest received on investments ₹ 90,000;

(ii) Compensation received ₹ 1,35,000 by the company in a suit filed;

(iii) Income tax paid during the year ₹ 15,75,000;

(iv) 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2021 at a premium of 5%.

(v) Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30/3/2022 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)

(vi) Dividend for FY 2020-21 on preference shares were paid at the time of redemption.

(vii) Dividend on Equity shares paid on 31.01.2022 for the year 2020-2021 ₹ 7;50 lakhs and interim dividend paid ₹ 2;50 lakhs for the year 2021-2022.

(viii) Land was purchased on 02/4/2021 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration;

(ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 01.04.2021	As on 31.3.2022
	₹	₹
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650

Cash in hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

(10 Marks)

Solution:**Manan Ltd.****Cash Flow Statement for the year ended 31st March, 2022**

	Rs.	Rs.
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	7,50,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	
Interest on investments received	(90,000)	
Profit on sale of investments		12,00,000
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory	(1,77,000)	
Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in outstanding expenses	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid		(15,75,000)
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,35,000
Net cash flow from operating activities		26,01,000
Cash flow from Investing Activities;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	36,000	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	

Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	(10,00,000)	
Net cash used in financing activities		(35,12,500)
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2021		3,94,450
Cash and cash equivalents as on 31.3.2022		16,950

Question 4 (RTP May'21)

The following are the extracts of Balance Sheet and Statement of Profit and Loss of Supriya Ltd.:

Extract of Balance Sheet

		Particulars	Notes	2021(Rs;'000)	2020(Rs;'000)
		Equity and Liabilities			
1		Shareholder's funds			
	(a)	Share capital	1	500	200
2		Non- current liabilities			
	(a)	Long term loan from bank		---	250
3		Current liabilities			
	(a)	Trade Payables		1,000	3,047
		Assets			
1		Non-current assets			
	(a)	Property, Plant and Equipment		230	128
2		Current assets			
	(a)	Trade receivables		2,000	4,783
	(b)	Cash & cash equivalents (Cash balance)		212	35

Extract of Statement of Profit and Loss

	Particulars	Notes	2021 (Rs;'000) 2020	(Rs;'000)
I	Expenses:			
	Employee benefits expense		69	25
	Other expenses	2	115	110
II	Tax expense:			

	Current tax (paid during year)		243	140
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Notes to accounts

		2021 (Rs;'000)	2020 (Rs;'000)
1	Share Capital		
	Equity Shares of Rs.10 each, fully paid up	500	200
2	Other expenses		
	Overheads	115	110

Prepare Cash Flow Statement of Supriya Ltd. for the year ended 31st March, 2021 in accordance with AS-3 using direct method. All transactions were done in cash only. There were no outstanding/prepaid expenses as on 31st March, 2020 and on 31st March, 2021. Ignore depreciation. Dividend amounting Rs. 80,000 was paid during the year ended 31st March, 2021.

Solution**Supriya Ltd.****Cash Flow Statement for the year ended 31st March, 2021****(Using direct method)**

		(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 Property, Plant and Equipment	(102)	
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
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Question 5 (RTP Nov 19)

From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2019.

Balance Sheets

Particulars	Note	31.03.2019 (₹)	31.03.2018 (₹)
I EQUITY AND LIABILITIES			
(1) Shareholder's Funds			
(a) Share Capital	1	3,50,000	3,00,000
(b) Reserves and Surplus	2	82,000	38,000
(2) Non-Current Liabilities			
(3) Current Liabilities			
(a) Trade Payables		65,000	44,000
(b) Other Current Liabilities	3	37,000	27,000
(c) Short term Provisions (provision for tax)	4	32,000	28,000
Total		5,66,000	4,37,000
II ASSETS			
(1) Non-current Assets			
(a) Tangible Assets		2,66,000	1,90,000
(b) Intangible Assets (Goodwill)		47,000	60,000
Non-Current Investments		35,000	10,000
(2) Current Assets			
(a) Inventories		78,000	85,000
(b) Trade Receivables		1,08,000	75,000
(c) Cash & Cash Equivalents		32,000	17,000
Total		5,66,000	4,37,000

Note 1: Share Capital

Particulars	31;03;2019 (₹)	31;03;2018 (₹)
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	1,00,000	1,50,000
Total	3,50,000	3,00,000

Note 2: Reserves and Surplus

Particulars	31;03;2019 (₹)	31;03;2018 (₹)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000

Capital Reserve	25,000	
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31;03;2019(₹)	31;03;2018 (₹)
Dividend declared	37,000	27,000

Note 4: Tangible Assets

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Land & Building	75,000	1,00,000
Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

- (i) Rs.18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.
- (ii) A piece of land has been sold out for Rs.50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.
- (iii) A plant was sold for Rs.12,000 WDV being Rs.15,000 on the date of sale (after charging depreciation).
- (iv) Dividend received amounted to Rs.2,100 which included pre-acquisition dividend of Rs.600.
- (v) An interim dividend of Rs.10,000 including Dividend Distribution Tax has been paid.
- (vi) Non-current investments given in the balance sheet represents investment in shares of other companies.
- (vii) Amount of provision for tax existing on 31.3.2018 was paid during the year 2018 -19.

Solution:**Cash flow Statement for the year ending 31st March, 2019**

	Particulars	₹	₹
1.	Cash flow from Operating Activities		
A.	Closing balance as per Profit and Loss Account		27,000
	Less: Opening balance as per Profit and Loss Account		(18,000)
	Add: Dividend declared during the year		37,000
	Add: Interim dividend paid during the year		10,000
	Add: Transfer to reserve		10,000
	Add: Provision for Tax		32,000
B	. Net profit before taxation, and extra-ordinary item		98,000
C	. Add: Items to be added		
	Depreciation	18,000	
	Loss on sale of Plant	3,000	

		Goodwill written off	13,000	34,000
	D	. Less: Dividend Income		(1,500)
	E	. Operating profit before working capital changes [B + C - D]	₹	1,30,500
	F	. Add: Decrease in Current Assets & Increase in Current Liabilities		
		Decrease in Inventories	7,000	
		Increase in Trade Payables	21,000	28,000
	G	. Less: Increase in Trade Receivables		(33,000)
	H	Cash generated from operations (E+F-G)		1,25,500
	I	Less: Income taxes paid		(28,000)
	J	₹ Net Cash from (used in) operating activities		97,500
II		. Cash Flows from investing activities:		
		Purchase of Plant		(1,34,000)
		Sale of Land		50,000
		Sale of plant		12,000
		Purchase of investments		(25,600)
		Dividend Received		2,100
		Net cash used in investing activities		(95,500)
III.		Cash Flows from Financing Activities:		
		Proceeds from issue of equity share capital		1,00,000
		Redemption of preference shares		(50,000)
		Interim Dividend (inclusive of DDT) paid		(10,000)
		Final dividend (inclusive of DDT) paid		(27,000)
		Net cash from financing activities		13,000
IV		. Net increase in cash and cash equivalents (I+II+III)		15,000
V		. Cash and cash equivalents at beginning of period		17,000
VI		. Cash and cash equivalents at end of period (IV+V)		32,000

1. Land and Building Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale/revaluation)	25,000	By Balance c/d	75,000
	1,25,000		1,25,000

Plant and Machinery Account

Particulars	₹	Particulars	₹
To Balance b/d	90,000	By Depreciation A/c	18,000

To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
		By Balance c/d	1,91,000
	2,24,000		2,24,000

2. Investments Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Bank A/c (Div. received)	600
To bank A/c (Purchase 25,600)	By Balance c/d	35,000	
	35,600		35,600

Question 6 (RTP May 18)

A company provides you the following information:

- (i) Total sales for the year were Rs. 398 crores out of which cash sales amounted to Rs. 262 crores.
- (ii) Receipts from credit customers during the year, aggregated Rs. 134 crores.
- (iii) Purchases for the year amounted to Rs. 220 crores out of which credit purchase was 80%.

Balance in creditors as on

1.4.2020	₹ 84 crores
31.3.2021	₹ 92 crores

- (iv) Suppliers of other consumables and services were paid Rs. 19 crores in cash.
- (v) Employees of the enterprises were paid 20 crores in cash.
- (vi) Fully paid preference shares of the face value of Rs. 32 crores were redeemed. Equity shares of the face value of Rs. 20 crores were allotted as fully paid up at premium of 20%.
- (vii) Debentures of Rs. 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
- (viii) Rs. 26 crores were paid by way of income tax.
- (ix) A new machinery costing Rs. 25 crores was purchased in part exchange of an old machinery. The book value of the old machinery was Rs. 13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of Rs. 15 crores. The balance was paid in cash to the vendor.
- (x) Investment costing Rs. 18 cores were sold at a loss of Rs. 2 crores.
- (xi) Dividends amounting Rs. 15 crores (including dividend distribution tax of Rs. 2.7 crores) was also paid.
- (xii) Debenture interest amounting Rs. 2 crore was paid.
- (xiii) On 31st March 2016, Balance with Bank and Cash on hand was Rs. 2 crores.

On the basis of the above information, you are required to prepare a Cash Flow Statement for the year ended 31st March, 2017 (Using direct method).

Solution:

Cash flow statement (using direct method) for the year ended 31st March, 2017

	(Rs. in crores)	(Rs. in crores)
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers 1	34	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less: Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	
Net cash used in financing activities		(25)
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2016		2
Cash and cash equivalents as on 31.3.2017		102

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

	(Rs. in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19

Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees [(a)+(b) + (c)]	251

Question 7 (RTP May '22)

From the following details relating to the accounts of Omega Ltd. prepare Cash Flow Statement for the year ended 31st March, 2021:

	31;03;2021(₹)	31;03;2020 (₹)
Share Capital	14,00,000	11,20,000
General Reserve	5,60,000	3,50,000
Profit and Loss Account	1,40,000	84,000
Debentures	2,80,000 -	
Provision for taxation	1,40,000	98,000
Trade payables	9,80,000	11,48,000
Plant and Machinery	9,80,000	7,00,000
Land and Building	8,40,000	5,60,000
Investments	1,40,000 -	
Trade receivables	7,00,000	9,80,000
Inventories	5,60,000	2,80,000
Cash in hand and at Bank	2,80,000	2,80,000

(i) Depreciation @ 20% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 70,000 (WDV 28,000) was sold for ₹ 49,000; Purchase of machinery was also made at the year end.

(iii) ₹ 70,000 was paid towards Income tax during the year.

(iv) Land & Building is not subject to any depreciation; Expenses on renovation of building amount ₹ 2,80,000 were incurred during the year. Prepare Cash Flow Statement.

Solution:**Omega Ltd.****Cash Flow Statement for the year ended 31st March, 2021**

Cash Flow from Operating Activities		
Increase in balance of Profit and Loss Account	₹56,000	
Provision for taxation	1,12,000	
Transfer to General Reserve	2,10,000	
Depreciation	1,40,000	
Profit on sale of Plant and Machinery	(21,000)	
Operating Profit before Working Capital changes	4,97,000	
Increase in Inventories	(2,80,000)	

Decrease in Trade receivables	2,80,000	
Decrease in Trade payables	(1,68,000)	
Cash generated from operations	3,29,000	
Income tax paid	(70,000)	
Net Cash from operating activities		2,59,000
Cash Flow from Investing Activities		
Purchase of plant & machinery	(4,48,000)	
Expenses on building	(2,80,000)	
Increase in investments	(1,40,000)	
Sale of old machine	49,000	
Net Cash used in investing activities		(8,19,000)
Cash Flow from Financing activities		
Proceeds from issue of shares	2,80,000	
Proceeds from issue of debentures	2,80,000	
Net cash from financing activities		5,60,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,80,000
Cash and Cash equivalents at the end of the year		2,80,000

Working Notes: Provision for taxation account

	₹		₹
To Cash (Tax Paid)	70,000	By Balance b/d	98,000
To Balance c/d	1,40,000	By Profit and Loss A/c	1,12,000
		(Balancing figure)	
	2,10,000		2,10,000

Plant and Machinery account

	₹		₹
To Balance b/d	7,00,000	By Depreciation	1,40,000
To Profit and Loss A/c (profit on sale of machine)	21,000	By Cash (sale of machine)	49,000
To Cash (Balancing figure)	4,48,000	By Balance c/d	9,80,000
	11,69,000		11,69,000

Question 8 (RTP May 23)

Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions		8,000	5,000
(Provision for taxation)			
Total		7,53,000	3,90,000
(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000
Total		7,53,000	3,90,000

Notes to Accounts

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
1. Share capital		
(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	1,50,000	1,00,000
	5,60,000	3,00,000
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	(10,000)	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

- Dividend paid during the year ₹ 10,000
- Depreciation charges during the year ₹ 40,000;

Solution:**Fox Ltd.****Cash Flow Statement for the year ended 31st March 2021**

	₹	₹
Cash flows from operating activities		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
Cash used in operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in operating activities	(2,10,000)	(25,000)
Cash flows from investing activities		
Purchase of PPE		
Net cash used in investing activities		(2,10,000)
Cash flows from financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

*Provision for tax of last year considered to be paid in the current year.

Working Note:

	₹
Property, plant and equipment acquisitions	

W.D.V. at 31.3.2021	3,50,000
Add back:	
Depreciation for the year	40,000
	3,90,000
Less: W.D.V. at 31.12.2020	1,80,000
Acquisitions during 2020-2021	2,10,000

Question 9 (Past Exam May '19)

The following information was provided by PQR Ltd. for the year ended 31st March, 2019:

- Gross Profit Ratio was 25% for the year, which amounts to Rs. 3,75,000.
- Company sold goods for cash only.
- Opening inventory was lesser than closing inventory by Rs. 25,000.
- Wages paid during the year Rs. 5,55,000.
- Office expenses paid during the year Rs. 35,000.
- Selling expenses paid during the year Rs. 15,000.
- Dividend paid during the year Rs. 40,000 (including dividend distribution tax).
- Bank Loan repaid during the year Rs. 2,05,000 (included interest Rs. 5,000)
- Trade Payables on 31st March, 2018 were Rs. 50,000 and on 31st March, 2019 were Rs. 35,000.
- Amount paid to Trade payables during the year Rs.6,10,000
- Income Tax paid during the year amounts to Rs. 55,000 (Provision for taxation as on 31st March, 2019 Rs. 30,000).
- Investments of Rs. 8,20,000 sold during the year at a profit of Rs. 20,000.
- Depreciation on furniture amounts to Rs. 40,000.
- Depreciation on other tangible assets amounts to Rs. 20,000.
- Plant and Machinery purchased on 15th November, 2018 for Rs. 3,50,000.
- On 31st March, 2019 Rs. 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.
- Cash and Cash equivalents on 31st March, 2018 Rs. 2,25,000.

A. Prepare cash flow statement for the year ended 31st March, 2019, using direct method.

B. Calculate cash flow from operating activities, using indirect method.

(10 Marks)

Solution:

(i) PQR Ltd. Cash Flow Statement for the year ended 31st March, 2019 (Using direct method)		
Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,75,000/25%)		15,00,000

Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(ii) 'Cash Flow from Operating Activities' by indirect method

		₹
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:**Calculation of net profit earned during the year**

	Rs.	Rs.
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	

Depreciation	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

MCQ

1. Crown Ltd. wants to prepare its cash flow statement. It sold equipment of book value of ₹ 60,000 at a gain of ₹ 8,000. The amount to be reported in its cash flow statement under operating activities is
 - a. Nil
 - b. ₹ 8,000
 - c. ₹ 68,000
 - d. ₹ 60,000
2. While preparing cash flows statement, an entity (other than a financial institution) should disclose the dividends received from its investment in shares as
 - a. operating cash inflow
 - b. investing cash inflow
 - c. financing cash inflow
 - d. cash & cash equivalent
3. XYZ Co. is a financial enterprise. In its cash flow statement, interest paid and dividends received should be
 - a. classified as operating cash flows.
 - b. classified as financing cash flows.
 - c. Not shown in cash flow statement.
 - d. classified as investing cash flows.
4. In the cash flow statement, 'cash and cash equivalents' donot include
 - a. Bank balances .
 - b. Short-term investments readily convertible into Cash are subject to an insignificant risk of changes in value.
 - c. Cash balances.
 - d. Loan from bank.
5. While preparing a Cash Flow Statement using the Indirect method as required under AS 3, which of the following will not be deducted from/added to the Net Profit to arrive at the "Cash flow from Operating activities"?
 - a. Interest income
 - b. Gain on sale of a fixed asset.
 - c. Depreciation.
 - d. Gain on sale of inventory

MCQs

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