

## 10. CASH FLOW STATEMENTS

### MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	-	-	-	08	-	-	06	-	08	-	8
Model – 2	10	-	-	-	08	-	-	05	-	-	-
Model – 3	-	-	-	-	-	04	-	-	-	04	-

Model – 1 : Direct Method

Model – 2 : Indirect Method

Model – 3 : Theory

**Introduction:** Accounting Standard 3, Cash Flow Statements, was issued in March, 2004. It is based on cash concept of profit. Cash Flow refers both cash and cash equivalents. This statement provides relevant information in assessing a company's liquidity, quality of earnings and solvency.

#### Benefits:

1. Cash flow statement provides information about the changes in cash and cash equivalents of an enterprise.
2. Identifies cash generated from trading operations.
3. The operating cash surplus which can be applied for investment in fixed assets.
4. Portion of cash from operations is used to pay dividend and tax and the other portion is ploughed back.
5. Very useful tool of planning.

**Purpose:** Cash flow statements are prepared to explain the cash movements between two points of time.

#### 1. Sources of Cash:

- a. Issue of shares and debentures and raising long-term loan.
- b. Sale of investments and other fixed assets.
- c. Cash from operations (Net Operating Profit)

#### 2. Applications of Cash:

- a. Redemption of preference shares and debentures and repayment of long-term loan.
- b. Purchase of investments and other fixed assets.
- c. Payment of tax.
- d. Payment of dividend.
- e. Loss on Operation (Net Operating Loss)

**Note –** Cash includes Bank A/c also. Increase in cash or decrease in cash is put in the applications and the sources respectively just to balance the cash flow statement.

#### Elements of Cash

As per AS 3, issued by the Council of the ICAI, 'Cash' include:

1. Cash in hand,
2. Demand deposits with banks, and
3. Cash equivalents.

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**a. Components**

- (i) Short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
- (ii) Securities with short maturity period of, say, three months or less from the date of acquisition

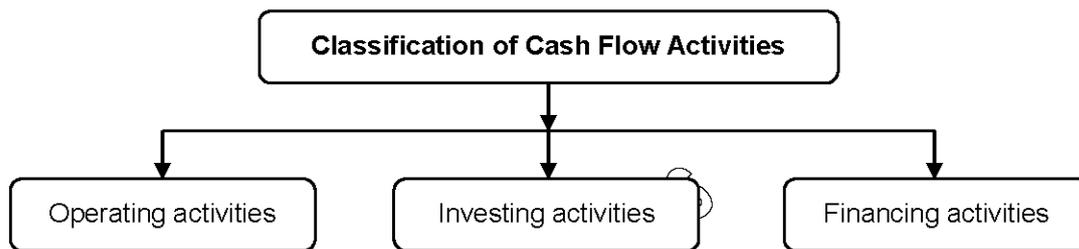
**b. Objective**

- (i) Deploy, for a short period, idle cash required to meet short-term cash commitments.

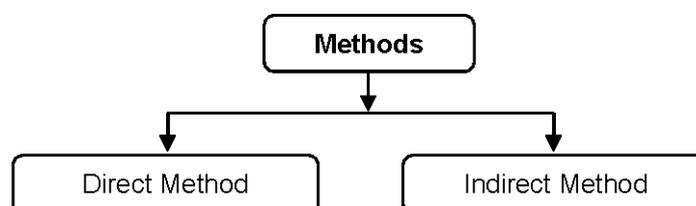
**c. Examples**

- (i) Acquisition of preference shares, shortly before their specified redemption date, bank deposits with short maturity period, etc.

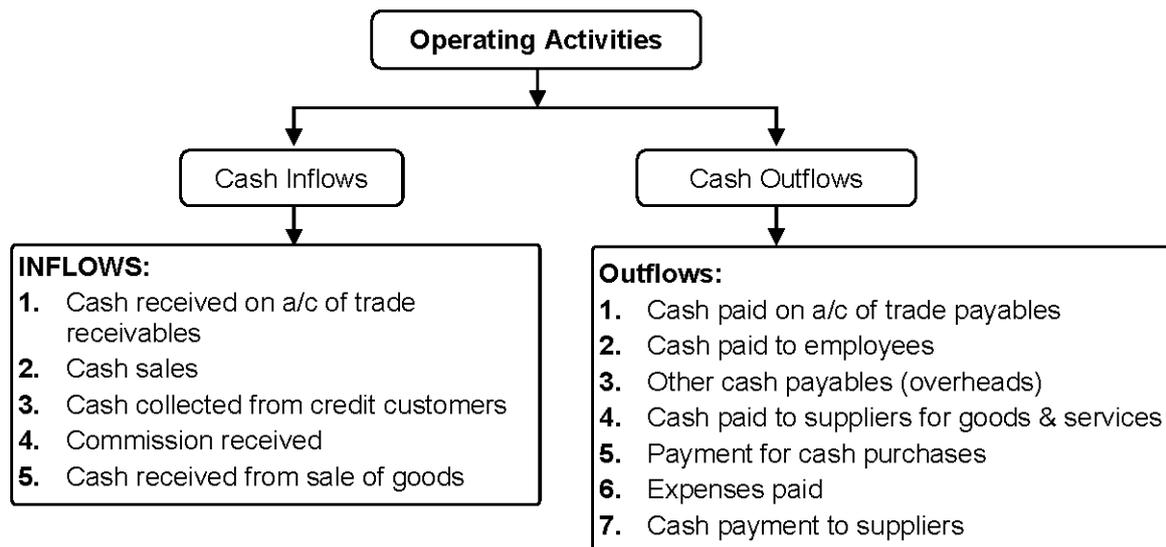
**Conclusion:** Thus, cash flow statement deals with flow of cash funds but does not consider the movements among cash, bank balance payable on demand and investment of excess cash in cash equivalents. Examples are cash withdrawn from current account, cash deposited in bank for 60 days, etc.

**Classification of Cash Flow Activities:****A. Operating Activities :**

1. **Definition:** These are the principal revenue generating activities of the enterprise.
2. **Net Impact:** Net impact of operating activities on flow of cash is reported as 'Cash flows from operating activities' or 'Cash from operation'.
3. **Key Indicator:** The amount of cash flows from operating activities is a key indicator of the extent to which the operations of the enterprises have generated sufficient cash flows to :
  - a) Maintain the operating capability of the enterprise,
  - b) Pay dividends, repay loans, and
  - c) Make new investments without recourse to external sources of financing.
4. **Information Provided:** It provides useful information about internal financing.
5. **Benefits:** Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.
6. **Examples**
  - a) cash receipts from the sale of goods and the rendering of service
  - b) cash receipt from fees, commission and other revenue;
  - c) cash payments to suppliers for goods; cash payments to employees and so on.
7. **Methods:** An enterprise can determine cash flows from operating activities using either:



- (i) **Direct method:** Gross receipts and gross cash payments may be obtained from the accounting records to ascertain cash flows from operating activities.



**Format:**

Particulars	Amount
Cash receipt from customers	XXX
Cash paid to suppliers and employees	<u>XXX</u>
Cash generated from operations	XXX
Income Tax paid	<u>XXX</u>
Cash flow before extraordinary item	XXX
Extra-ordinary Items	<u>XXX</u>
<b>Net cash flow from operating activities</b>	<b>XXX</b>

**Example:** Calculate cash flow from operating activities from the following information.

**Summary of Cash Account for the year ended March 31, 2015**

Particulars	Rs.	Particulars	Rs.
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 Repay of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	<b>5,96,000</b>		<b>5,96,000</b>

**Solution:**

**Cash from Operating Activities of ..... for the year ended March 31, 2015**

**(Direct Method)**

Particulars	Rs.	Rs.
<b>Operating Activities:</b>		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	

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

(ii) **Indirect Method:** The indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing activities.

**Method of Determination:** Under the indirect method, the net cash from operating activities is determined by adjusting net profit or loss instead of individual items appearing in the profit and loss account. Net profit or loss is also adjusted for the effect of:

- changes during the period in inventories and operating receivables and payables;
- non-cash items such as depreciation; and
- Other items for which the cash effects are investing or financing cash flows. Examples are interest received and paid, dividend received and paid etc., which are related to financing or investing activities and are shown separately in the cash flow statement.
- The indirect method is also known as 'reconciliation method'.

**Format:**

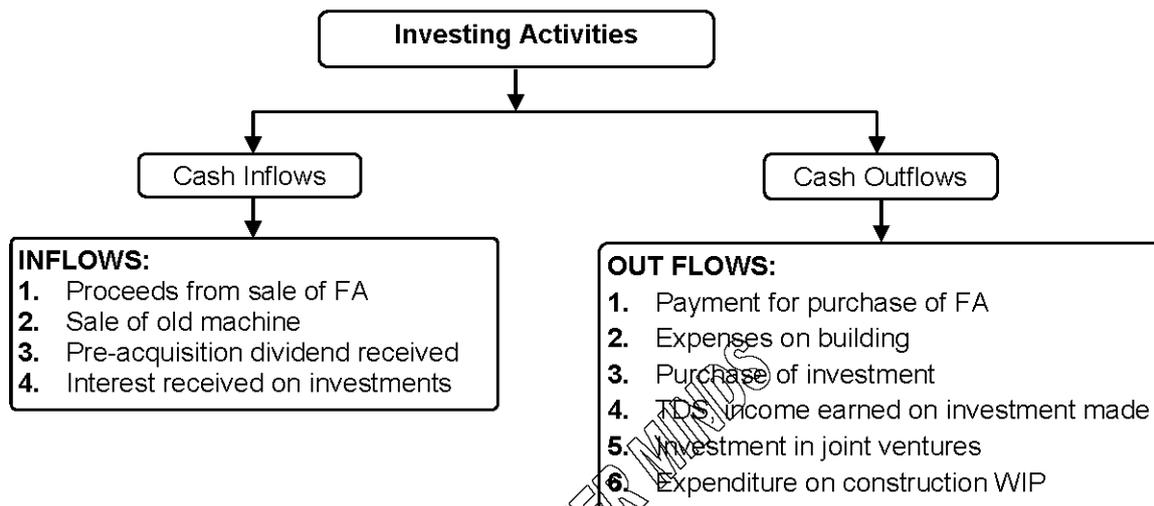
Particulars	Rs.	Rs.
Net Profit for the year		XXX
<b>Add: Non-Cash and Non-Operating Expenses:</b>	XXX	
Depreciation	XXX	
Share Discount Written off	XXX	
Loss on Sale of Assets	XXX	
Provision for taxation, etc.		
<b>Less: Non-Cash and Non-Operating Incomes:</b>	<u>(XXX)</u>	<u>XXX</u>
Profit on Sale of Assets		XXX
Net Profit after Adjustment for Non-Cash Items	(XXX)	
<b>Less: Increase in Current Assets</b>	XXX	
<b>Add: Decrease in Current Asset</b>	XXX	
<b>Add: Increase in Current Liabilities</b>	(XXX)	
<b>Less: Decrease in Current Liability</b>		XXX
<b>Net Cash flow from Operating activities</b>		<b>XXX</b>

**B. Investing activities:**

- Definition:** These are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- Examples:**
  - These activities are related to the acquisition and disposal of long-term assets, non-operating current assets and investments which results in outflow of cash.
  - Disposal of the aforesaid assets results in inflow of cash.

- c. Thus, inflows and outflows related to acquisition and disposal of assets, other than those related to operating activities, are shown under this category
3. **Disclosure:** Disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which the expenditure have been made for resources intended to generate future incomes and cash flows.

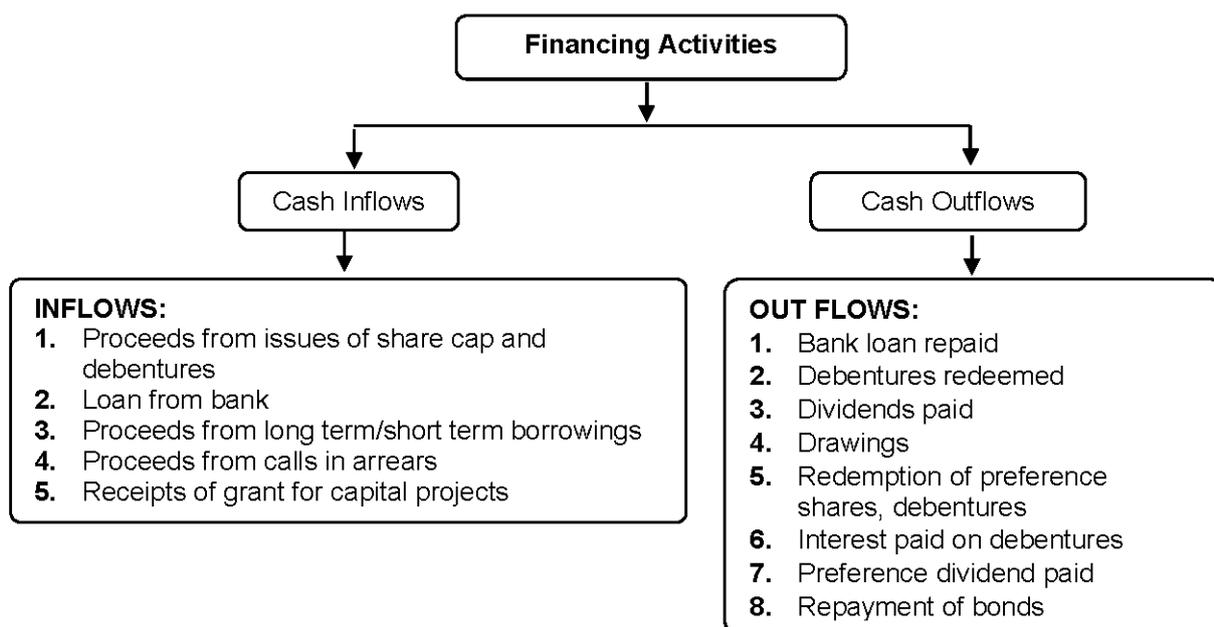
Particulars	Amount
Purchase of fixed assets	XXX
Proceeds from sale of equipment	XXX
Interest received	XXX
Dividend received	XXX
<b>Net cash flow from investing activities</b>	<b>XXX</b>



### C. Financing activities:

- Definition:** These are the activities that result in changes in the size and composition of the owner's capital (including preference share capital) and borrowings of the enterprise.
- Examples:**
  - These activities are basically related to the changes in capital and borrowing of the enterprise which affect flow of cash.
  - Redemption of shares and repayment of borrowings results in outflow of cash.
  - Thus inflows and outflows related to the amount of capital and borrowings of the enterprise are shown under this head.
- Disclosure:** Disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings) to the enterprise.

Particulars	Amount
Proceeds from issuance of share capital	XXX
Proceeds from long-term borrowings	XXX
Repayments of long-term borrowings	XXX
Interest paid	XXX
Dividend paid	XXX
<b>Net cash flow from financing activities</b>	<b>XXX</b>



**Format:** AS-3 (Revised) has not prescribed any specific format of cash flow statement. However, suggested format can be inferred from the illustrations given in the AS 3.

**Cash Flow Statement of ..... for the year ended ..... (Direct method)**

Particulars	Amount
Cash Flows from operating activities	XXX
Cash flows from investing activities	XXX
Cash flows from financing activities	XXX
Net increase in cash and cash equivalents	XXX
Cash & cash equivalents at the beginning of period.	XXX
Cash & cash equivalents at the end of the period.	XXX

**Cash Flow Statement of ..... for the year ended ..... (Indirect method)**

Particulars	Amount
Cash flows from operating activities	XXX
Cash flow from investing activities	XXX
Cash flow from financing activities	XXX
Net increase in cash and cash equivalents	XXX
Cash & cash equivalents at the beginning of period	XXX
Cash and cash equivalents at end of period	XXX

**Other Items:** In addition to the cash flows described, AS-3 (Revised) also deals with certain other items as outlined below:

**1. Interest and Dividends:**

- a. In case of a financial enterprise - operating activities.
- b. In the case of other enterprises - classified as financing activities
- c. In all cases, cash flows from interest and dividends received and paid should each be disclosed separately.
- d. Investments in subsidiaries and dividends earned on them are investing cash flows for all enterprises.

2. **Taxes on Income:** Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When it is practicable to identify the tax with investing or financing activities, the tax cash flow is classified as an investing or financing activity as appropriate. For example, capital gains tax on the sale of land and buildings is identifiable with the investing activities and hence, it should be as investing activities.
3. **Extraordinary Items:** The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed to enable users to understand their nature and effect on the present and future cash flows of the enterprise

**Example:** Winning of a law suit or a lottery and receipt of claim form an insurance company are examples of extraordinary items.

Insurance claims received against loss of stock or loss of profits, are extraordinary operating cash inflows for all enterprises.

Insurance claims received against loss of fixed assets are extraordinary investing cash inflows for all enterprises. According to AS-3 requires separate disclosure of extraordinary cash flows, classifying them as cash flows from operating, investing or financing activities, as may be appropriate.

4. **Non-cash Transactions:** Transactions which do not involve inflow or outflow of cash or cash equivalents are excluded from a cash flow statement. But significant non - cash investing and financing transactions should be reported in a separate schedule to the cash flow statement. Examples of non-cash transactions are:
- The acquisition of an enterprise by means of issue of shares.
  - The acquisition of a fixed asset, say machinery, on credit.
  - The conversion of convertible debentures into equity shares.

Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

5. **Cash flow from foreign currency transactions:**

The effect of change in exchange rate in cash and cash equivalents held in foreign currency should be reported as a separate part of the reconciliation of cash and cash equivalents. Unrealized gains and losses arising from changes in foreign exchange rates are not cash flows.

**Example:** Z Ltd. has no foreign currency cash flow for the year 2009. It holds some deposit in a bank in USA. The balances as on 31-12-2009 and 31-12-2010 were US\$ 100,000 AND US\$ 102,000 respectively. The exchange rate on December 31, 2009 was US\$ 1 = 45. The same on 31-12-2010 was US\$ 1 = 50. The increase in balance was on account of interest credited on 31-12-2010. Thus, the deposit was reported at Rs.45,00,000 in the balance sheet as on December 31,2009. It was reported at Rs.51,00,000 in the balance sheet as on 31-12-2010.

The profit and loss account was credited by Rs.1,00,000 (US\$ 2000 X Rs.50) towards interest income. It was credited by the exchange difference of Us \$ 100,000 X (Rs.50-Rs.45) that is, Rs.5,00,000. In preparing the cash flow statement, Rs.5,00,000, the exchange difference, should be deducted from the 'net profit before taxes, and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference Rs.5,00,000 should be added to the opening balance in note to cash flow statement or deducted from closing balance.

6. **Reporting cash flow on net basis:** Generally as per AS- 3 it is forbidden to do netting of receipts and payments from investing and financing activities. Thus, cash paid on purchase of fixed assets should not be shown net of cash realised from sale of fixed assets. For example, if an enterprise pays Rs.50,000 in acquisition of machinery and realises Rs.10,000

on disposal of furniture, it is not right to show net cash outflow of Rs.40,000. But there are some exceptions to this rule mentioned in AS-3 that cash flows from the following operating, investing or financing activities may be reported on a net basis.

- (i) Cash receipts and payments on behalf of customers, e.g. cash received and paid by a bank against acceptances and repayment of demand deposits.
- (ii) Cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short, e.g. purchase and sale of investments by an investment company.

Even AS - 3 permits financial enterprises to report cash flows on a net basis in the following three circumstances.

- (a) Cash flows on acceptance and repayment of fixed deposits
- (b) Cash flows on placement and withdrawal deposits from other financial enterprises
- (c) Cash flows on advances given to customers and repayments received there from.

### **AS - 3 (Revised) Applicability:**

The standard is mandatory for level 1 enterprises in respect of accounting periods commencing on or after April 1, 2001. The level II and level III enterprises are encouraged but not required to apply the standard.

All listed companies in India are required as per SEBI to prepare and present cash flow statements by indirect method in accordance with AS-3.

### **Disclosure of cash and cash equivalents:**

1. An enterprise should disclose the components and cash and cash equivalents and should present a reconciliation of the amount in the cash flow statement in the equivalent items reported in the balance sheet.
2. An enterprise should disclose the amount of significant cash and cash equivalent balance held by enterprises that are not available for use by it with explanation of management.

## **PROBLEMS FOR CLASSROOM DISCUSSION**

**Problem 1: Direct Method-Basic:** The following summary cash account has been extracted from the company's accounting records:

<b>Summary Cash Account</b>		<b>(Rs. In '000)</b>
<b>Particulars</b>	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>
Balance at 1.3.2014		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		<b>3,246</b>
Payments to suppliers	2,047	
Payments for fixed assets	230	
Payments for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayments of bank loan	250	
Balance at 31.12.2014		<b>(3034)</b>
		<b>212</b>

Prepare Cash Flow Statement of this company Hills Ltd. for the year ended 31st March, 2015 in accordance with AS-3 (Revised).

The company does not have any cash equivalents.

(SM)

(Ans: Cash flow from Operating activities: 309, Investing activities: (102),

(Solve problem no 1 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 2: Direct Method-Moderate:** Prepare Cash flow for Gamma Ltd., for the year ending 31.3.2014 from the following information:

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

Particulars	Rs. in crores 1.3.2013	Rs. in crores 31.3.2014
Debtors	45	50
Creditors	21	23
Bank	6	-

(SM)

(Ans: Cash flow from Operating activities: 29, Investing activities: 3.4,  
Financing activities: (20.2))

(Solve problem no. 2,3 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 3: (PRINTED SOLUTION AVAILABLE) Direct Method-Advanced**

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 2015 with the help of the following information:

- Company sold goods for cash only.
- Gross Profit Ratio was 30% for the year, gross profit amounts to Rs. 3,82,500.
- Opening inventory was less than closing inventory by Rs. 35,000.
- Wages paid during the year Rs. 4,92,500.
- Office and selling expenses paid during the year Rs. 75,000.
- Dividend paid during the year Rs. 30,000 (including dividend distribution tax.)
- Bank loan repaid during the year Rs. 2,15,000 (included interest Rs. 15,000)
- Trade payables on 31st March, 2014 exceed the balance on 31st March, 2015 by 25,000.
- Amount paid to trade payables during the year Rs. 4,60,000.
- Tax paid during the year amounts to Rs. 65,000 (Provision for taxation as on 31.03.2015 Rs. 45,000).

11. Investments of Rs. 7,00,000 sold during the year at a profit of Rs. 20,000.  
 12. Depreciation on fixed assets amounts to Rs. 85,000.  
 13. Plant and machinery purchased on 15th November, 2014 for Rs. 2,50,000.  
 14. Cash and Cash Equivalents on 31st March, 2014 Rs. 2,00,000.  
 15. Cash and Cash Equivalents on 31st March, 2015 Rs. 6,07,500. (Nov-2015)

(Ans: Cash flow from Operating activities: 1,82,500 Investing activities: 4,70,000, Financing activities: (2,45,000))

(Solve problem no.4 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 4: (PRINTED SOLUTION AVAILABLE)** Indirect Method - Basic: Surya Ltd. has provided you the following particulars. Prepare Cash Flow from Operating Activities by Indirect Method in accordance with AS 3:

**Profit & Loss Account of Surya Ltd. for the year ended 31<sup>st</sup> March, 2015**

Particulars	Rs.	Particulars	Rs.
To Depreciation	86,700	By Operating Profit before depreciation	11,01,600
To Patents written off	35,000	By Profit on Sale on Investments	10,000
To Provision for Tax	1,25,000	By Refund of Tax	3,000
To Proposed dividend	72,000	By Insurance Claim-Major Fire Settlement	1,00,000
To Transfer to Reserve	87,000		
To Net Profit	8,08,900		
	<b>12,14,600</b>		<b>12,14,600</b>

**Additional information:**

Particulars	31.03.2014	31.03.2015
Inventory	1,20,000	1,60,000
Trade Receivables	7,500	75,000
Trade Payables	23,735	87,525
Provision for Tax	1,18,775	1,25,000
Prepaid Expenses	15,325	12,475
Marketable Securities	11,775	29,325
Cash Balance	25,325	35,340

(PM, Nov-13)

(Ans: Cash flow from operating activities: 10,44,965)

(Solve problem no 5,6 & 7 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 5: Basic level:** Following is the B/S of AB Co. Ltd. as at 1<sup>st</sup> January, 1990 and 31<sup>st</sup> Dec., 1990:

Name of company: AB Co. Ltd

Balance sheet as at: 31.12.1990 and 1.1.1990

			Particulars	Notes No.	Figures as at the end of current reporting period 31-12-1990	Figures as at the end of the previous reporting period 1-1-1990
			1	2	3	4
			<b>Equity and Liabilities:</b>			
			<b>Shareholder's funds</b>			
1	a		Share capital		3,50,000	3,00,000
	b		Reserves and Surplus	1	1,75,800	75,000
2	a		<b>Non-current liabilities</b>			
			Long term borrowings (6% borrowings)		70,000	-
3	a		<b>Current liabilities</b>			
	b		Trade Payable(creditors)		90,700	85,000
			Short – term provisions	2	75,500	52,500
			<b>TOTAL</b>		<b>7,62,000</b>	<b>5,12,500</b>
			<b>ASSETS:</b>			
1	a		<b>Non-current assets</b>			
		i	Fixed assets			
			Tangible assets	3	5,36,500	3,20,900
2	a		<b>Current Assets</b>			
	b		Inventories (Stock)		95,700	82,400
	c		Trade receivables (Debtors)		85,500	75,000
			Cash and cash equivalents (Cash at Bank)		44,300	34,200
			<b>TOTAL</b>		<b>7,62,000</b>	<b>5,12,500</b>

**Notes to Accounts:**

Particulars	Amount (Rs.) 31 – 12 - 1990	Amount (Rs.) 1 – 1 - 1990
<b>1. Reserves and Surplus</b>		
Share premium	30,000	-
General reserve	65,000	45,000
Profit and loss	80,800	30,000
<b>2. Short – term provisions</b>		
Provision for tax	40,500	22,500
Proposed dividend	35,000	30,000
<b>3. Tangible assets</b>		
Land & building	3,90,000	2,30,000
Plant & machinery	1,40,000	85,400
Furniture	6,500	5,500

**Additional information:** Depreciation written off during the year: Land & building - 60,000, Plant and Machinery - 50,000, Furniture - 1,200. You are required to prepare a cash flow statement.  
(Ans.: Operating Activities Rs.2,16,900)

(Solve problem no 8 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 6:** Indirect Method-Retained Earnings: From the following information, prepare cash flow statement of A (P) Ltd. as at 31st March, 2015 by using indirect method:

**Balance Sheet of A (P) Ltd as at 31<sup>st</sup> March 2015**

Particulars	2014 (Rs.)	2015 (Rs.)
<b>Liabilities:</b>		
Share capital	12,00,000	12,00,000
Retained Earnings	8,50,000	10,00,000
Long term loans	10,00,000	10,60,000
Trade payables	3,50,000	4,00,000
	<b>34,00,000</b>	<b>36,60,000</b>
<b>Assets:</b>		
Fixed assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000
Inventory	6,80,000	7,00,000
Trade receivables	7,60,000	6,90,000
Cash	60,000	70,000
	<b>34,00,000</b>	<b>36,60,000</b>

**Income Statement for the year ended 31<sup>st</sup> March, 2015**

Particulars	Amount (Rs.)
Sales	40,80,000
Less: Cost of sales	(27,20,000)
<b>Gross profit</b>	<b>13,60,000</b>
<b>Less: Operating expenses:</b>	
Administrative expenses	4,60,000
Depreciation	2,20,000
Operating profit	6,80,000
<b>Add: Non-operating incomes (dividend received)</b>	<b>50,000</b>
	7,30,000
Less: Interest paid	(1,40,000)
<b>Profit before tax</b>	<b>5,90,000</b>
Less: Income-tax	(2,60,000)
<b>Profit after tax</b>	<b>3,30,000</b>

**Statement of Retained Earnings**

Particulars	Amount (Rs.)
Opening balance	8,50,000
Add: Profit	3,30,000
	11,80,000
Less: Dividend paid	(1,80,000)
<b>Closing balance</b>	<b>10,00,000</b>

(PM)

(Ans: Cash flow from operating activities 7,40,000, Investing activities (4,70,000), financial activities (2,60,000))

Note: \_\_\_\_\_

**Problem 7: (PRINTED SOLUTION AVAILABLE)** Indirect Method-Bad Debts and Prov. for Bad debts: ABC Ltd. gives you the following information. You are required to prepare Cash Flow Statement by using indirect methods as per AS-3 for the year ended 31.03.2015

Name of the Company : ABC Ltd

Balance Sheet as at : 31.03.2015 and 31.03.2014

		Particulars	Notes No.	Figures as at the end of Current Reporting period 31-03-15	Figures as at the end of the previous reporting period 31.03.14
		1	2	3	4
		<b>EQUITY AND LIABILITIES:</b>			
		Shareholder's funds			
1	a	Share capital		50,00,000	50,00,000
	b	Reserves and Surplus	1	36,90,000	26,50,000
		<b>Non-current liabilities:</b>			
2	a	Long term borrowings (Debentures)		9,00,000	-
		<b>Current liabilities</b>			
	a	Short term -Borrowings (Bank loan)		3,00,000	1,50,000
3	b	Trade payables(creditors)		8,20,000	8,80,000
	c	Short term provisions (Provision for B. D)		1,90,000	1,50,000
	d	Other current liabilities	2	5,70,000	4,80,000
		<b>TOTAL</b>		<b>11470000</b>	<b>9310000</b>
		<b>ASSETS:</b>			
		Non-current assets			
1	a	Fixed assets			
	I	Tangible assets	3	32,80,000	21,20,000
		<b>Current Assets:</b>			
	a	Current Investments (Marketable securities)		15,00,000	11,80,000
	b	Inventories (Stock)		19,20,000	20,10,000
2	c	Trade receivables (Debtors)		28,30,000	23,90,000
	d	Cash and cash equivalents (Cash)		18,20,000	15,20,000
	e	Other current assets (Prepaid expenses)		1,20,000	90,000
		<b>TOTAL</b>		<b>11470000</b>	<b>9310000</b>

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## Notes to Accounts:

Particulars	31.03.15	31.03.14
<b>1. Reserves and Surplus:</b>		
Retained earnings	36,90,000	26,50,000
<b>2. Other current liabilities:</b>		
Liability for expenses	2,70,000	3,30,000
Dividend payable	3,00,000	1,50,000
<b>3. Tangible assets:</b>		
Plant and machinery	40,70,000	27,30,000
Less: depreciations	(7,90,000)	(6,10,000)

## Additional Information:

- Net profit for the year ended 31.3.15, after charging depreciation Rs.1,80,000 is Rs.22,40,000.
- Debtors of Rs.2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.
- ABC Ltd. declared dividend of Rs.12,00,000 for the year 2014-2015. **(PM)**

(Ans.: Cash flow from operating activities 19,60,000. Investing activities (13,40,000), financial activities – Nil)

(Solve problem no 9 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 8: Indirect Method-Advanced:** Ms.Jyothi of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 2015:

Particulars	Rs.
Net Profit after tax	25,000
Dividend (including dividend tax) 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 Profit & Loss Account	20,000
Profit on sale of Investments	100
Carrying amount of Investment sold	27,765
Interest income 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

Required: Prepare the Cash Flow Statement for the year 2015 in accordance with AS-3.  
(Make necessary assumptions) (SM)

(Ans: Cash flow from operating activities (2,895). Investing activities (22,634),  
financial activities 27,514)

(Solve problem no. 10 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 9: Indirect method - Adjustments for shares, Dividends, Assets:**

The following figures have been extracted from the Books of X limited for the year ended on 31.3.2015. You are required to prepare a cash flow statement.

1. Net profit before taking into account Income Tax and Income from law suits but after taking into Account the following items was Rs.20 lakhs:
  - a. Depreciation on Fixed Assets Rs.5 lakhs.
  - b. Discount on issue of Debentures written off Rs.30,000.
  - c. Interest on Debentures paid Rs.3,50,000.
  - d. Books value of investments Rs.3 lakhs (Sale of Investments for Rs.3,20,000).
  - e. Interest received on investments Rs.60,000.
2. Compensation received Rs.90,000 by the company in a suit filed.
3. Income tax paid during the year Rs.10,50,000.
4. 15,000, 10% preference shares of Rs.100 each were redeemed on 31.3.2015 at a premium of 5%. Further the company issued 50,000 equity shares of Rs.10 each at premium of 20% on 2.4.2014. Dividend on preference shares were paid at the time of redemption.
5. Dividends paid for the year 2013-2014 Rs.5 lakhs and Interim dividend paid Rs.3 lakhs for the year 2014-15.
6. Land was purchased on 2.4.2014 for Rs.2,40,000 for which the company issued 20,000 equity shares of Rs.10 each at a premium of 20% to the land owner as consideration.
7. Current assets and Current liabilities in the beginning and at the end of the years were as detailed below:

Particulars	31.3.14	31.3.15
Stock	12,00,000	13,18,000
Sundry Debtors	2,08,000	2,13,100
Cash in hand	1,96,000	35,000
Bills receivable	50,000	40,000
Bills payable	45,000	40,000
Sundry Creditors	1,66,000	1,71,300
Outstanding expenses	75,000	81,800

(PM)

(Ans: cash flow from operating activities 17,34,000. investing activities 3,80,000,  
Financial activities (22,75,000))

Note: \_\_\_\_\_

**Problem 10: (PRINTED SOLUTION AVAILABLE)** Indirect Method-Adjustment for assets & Dividends: The following data were provided by the accounting records of Ryan Ltd. at year-end, March 31, 2015:

## Income Statement

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

## Comparative Balance Sheets:

Particulars	31 <sup>st</sup> March 2015	31 <sup>st</sup> March 2014
<b>Assets:</b>		
Plant Assets	7,15,000	5,05,000
Less: Accumulated Depreciation	<u>(1,03,000)</u>	<u>(68,000)</u>
	6,12,000	4,37,000
Long term Investments	1,15,000	1,27,000
<b>Current Assets:</b>		
Inventory	1,44,000	1,10,000
Accounts receivable	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	<u>1,000</u>	5,000
	<b>9,65,000</b>	<b>7,49,000</b>
<b>Liabilities:</b>		
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
<b>Current liabilities:</b>		
Accounts payable	50,000	43,000
Accrued liabilities	12,000	9,000
Income tax provision	3,000	5,000
	<b>9,65,000</b>	<b>7,49,000</b>

## Analysis of selected accounts and transactions during 2014-15

1. Purchased investments for Rs. 78,000.
2. Sold investments for Rs. 1,02,000. These investments cost Rs. 90,000.
3. Purchased plant assets for Rs. 1,20,000.

4. Sold plant assets that cost Rs. 10,000 with accumulated depreciation of Rs. 2,000 for Rs.5,000.
5. Issued Rs. 1,00,000 of bonds at face value in an exchange for plant assets on 31<sup>st</sup> March, 2015.
6. Repaid Rs. 50,000 of bonds at face value at maturity.
7. Issued 15,000 shares of Rs. 10 each.
8. Paid cash dividends Rs. 8,000.

Prepare Cash Flow Statement as per AS-3 (Revised), using indirect method. (SM)  
 (Net Cash from operating activities Rs.47,000, Investing activities Rs. (85,000), Financing Activities Rs.69,000)

(Solve problem no.11 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 11: Indirect Method-change in stock valuation policy:**

Name of the Company : New Light Ltd

Balance Sheet as at : 31.3.15 and 31.03.14

		Particulars	Notes No.	Figures as at the end of current reporting period 31-03-15	Figures as at the end of the previous reporting period 31.03.14
		1	2	3	4
1		<b>EQUITY AND LIABILITIES:</b>			
		Shareholder's funds			
	a	Share capital	1	18,80,000	16,00,000
	b	Reserves and Surplus	2	11,40,000	9,20,000
2		<b>Non-current liabilities</b>			
	a	Long term borrowings (9% debentures)		2,80,000	4,00,000
3		<b>Current liabilities</b>			
	a	Short – term provisions	3	4,84,000	4,80,000
	b	Other current liabilities	4	5,36,000	4,80,000
	c	<b>TOTAL</b>		<b>43,20,000</b>	<b>38,80,000</b>
1		<b>ASSETS:</b>			
		<b>Non-current assets</b>			
	a	Fixed assets			
	I	Tangible assets	5	26,40,000	22,80,000
2		<b>Current Assets</b>			
	a	Current Investments		3,20,000	4,00,000
	b	Cash and cash equivalents (cash)		10,000	10,000
	c	Other current assets	6	13,50,000	11,90,000
				<b>43,20,000</b>	<b>38,80,000</b>

**Notes to Accounts:**

Particulars	31.03.15	31.03.14
<b>1. Share capital:</b>		
Equity Share capital	16,00,000	12,00,000
10% redeemable preference share capital	2,80,000	4,00,000
<b>2. Reserves and Surplus:</b>		
Capital reserve	40,000	-

General reserve	8,00,000	6,80,000
Profit and loss A/c	3,00,000	2,40,000
<b>3. Short – term provisions:</b>		
Provision for tax	3,40,000	3,60,000
Proposed dividend	1,44,000	1,20,000
<b>4. Other current liabilities:</b>		
Unpaid dividends	16,000	-
Current liabilities	5,20,000	4,80,000
<b>5. Tangible assets</b>	38,00,000	32,00,000
(Less) depreciations	(11,60,000)	(9,20,000)
<b>6. Other current assets</b>		
Preliminary expenses	40,000	80,000
Other current assets	13,10,000	11,10,000

**Additional Information:**

- The company sold one fixed asset for Rs.1,00,000, the cost of which was 2,00,000 and the depreciation provided on it was Rs.80,000.
- The company also decided to write off another fixed asset costing Rs.56,000 on which depreciation amounting to Rs.40,000 has been provided.
- Depreciation on fixed assets provided Rs.3,60,000.
- Company sold some investment at a profit of Rs. 40,000, which was credited to capital reserve.
- Debentures and preference share capital redeemed at 5% premium.
- Company decided to value stock at cost whereas previously the practice was to value stock at cost less 10%. The stock according to books on 31-3-2014 was Rs.2,16,000. The stock on 31-3-2015 was correctly valued at Rs.3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard-3 by indirect method.

(PM)

(Ans.: Cash from operating activities Rs.5,92,000, Investing activities Rs. (6,36,000), Financing Activities Rs.44,000)

(Solve problem no. 12 of assignment problems as rework)

Note: \_\_\_\_\_

**Problem 12: Indirect Method-Voluntary separation cost and Pre-acquisition dividend:**

From the following Balance Sheet and information, prepare Cash Flow Statement of Ryan Ltd. for the year ended 31<sup>st</sup> March, 2015.

Name of the Company : Ryan Ltd

Balance Sheet as at : 31<sup>st</sup> March, 2015 and 31<sup>st</sup> March, 2014

		Particulars	Notes No.	Figures as at the end of current reporting period 31-03-15	Figures as at the end of the previous reporting period 31.03.14
		1	2	3	4
1		<b>EQUITY AND LIABILITIES:</b>			
		Shareholder's funds			
	a	Share capital	1	6,00,000	7,00,000

	b	Reserves and Surplus	2	3,70,000	3,00,000
2		<b>Non-current liabilities:</b>			
	a	Long term borrowings (9 % debentures)		2,00,000	-
3		<b>Current liabilities:</b>			
	a	Trade Payable	3	1,15,000	1,10,000
	b	Short – term provisions	4	1,85,000	1,20,000
	c	Other current liabilities	5	30,000	20,000
		<b>TOTAL</b>		<b>15,00,000</b>	<b>12,50,000</b>
1		<b>ASSETS:</b>			
		Non-current assets			
	a	Fixed assets			
	l	Tangible assets	6	9,15,000	7,00,000
2		<b>Current Assets</b>			
	a	Current Investments		50,000	80,000
	b	Inventories (stock)		95,000	90,000
	c	Trade receivables	7	2,40,000	2,00,000
	d	Cash and cash equivalents		65,000	90,000
	e	Other current assets	8	1,35,000	90,000
		<b>TOTAL</b>		<b>15,00,000</b>	<b>12,50,000</b>

## Notes to accounts:

Particulars	31.03.15	31.03.14
<b>1. Share capital:</b>		
Equity Share capital	6,00,000	5,00,000
10% redeemable preference share capital	-	2,00,000
<b>2. Reserves and Surplus:</b>		
Capital red. Reserve	1,00,000	-
Capital reserve	1,00,000	-
General reserve	1,00,000	2,50,000
Profit and loss A/c	70,000	50,000
<b>3. Trade Payable:</b>		
Creditor	95,000	80,000
Bill payables	20,000	30,000
<b>4. Short – term provisions:</b>		
Provision for tax	95,000	60,000
Proposed dividend	90,000	60,000
<b>5. Other current liabilities:</b>		
Liability for expenses	30,000	20,000
<b>6. Tangible assets:</b>		
Land and buildings	1,50,000	2,00,000
Plant and machinery	7,65,000	5,00,000
<b>7. Trade Receivables:</b>		
Debtors	1,75,000	1,30,000
Bills receivables	65,000	70,000
<b>8. Other current assets:</b>		
Preliminary expenses	10,000	25,000
Voluntary separation payments	1,25,000	65,000

**Additional Information:**

1. A piece of land has been sold out for Rs.1,50,000 (Cost Rs.1,20,000) and the balance land was revalued. Capital Reserve consisted of Profit on sale and profit on revaluation.
2. On 1<sup>st</sup> April, 2014 a plant was sold for Rs.90,000 (Original Cost Rs.70,000 and W.D.V. Rs.50,000) and Debentures worth Rs.1 lakh was issued at par as part consideration for Plant of Rs.4.5 lakh acquired.
3. Part of the investments (Cost Rs.50,000) was sold for Rs.70,000.
4. Pre-acquisition dividend Rs.5,000 was adjusted against cost of Investment.
5. Directors have proposed 15% dividend for the current year.
6. Voluntary separation cost of Rs.50,000 was adjusted against General Reserve.
7. Income-tax liability for the current year was estimated at Rs.1,35,000.
8. Depreciation @ 15% has been written off from plant account but no depreciation has been charged on Land and Building.

**(May - 15, PM)***(Ans.: Cash from operating activities Rs.1,13,000, Investing activities Rs. (60,000),  
Financing Activities Rs.(78,000))***(Solve problem no13 of assignment problems as rework)****Note:** \_\_\_\_\_

**Problem 13: (PRINTED SOLUTION AVAILABLE) Indirect Method-Changes in Assets and Liabilities:** The following are the changes in the account balances taken from the Balance Sheets of PQ Ltd. as at the beginning and end of the year:

Changes in Rupees	Debt or [Credit]
Equity share capital 30,000 shares of Rs. 10 each issued and fully paid	0
Capital reserve	[49,200]
8% debentures	[50,000]
Debenture discount	1,000
Freehold property at cost/revaluation	43,000
Plant and machinery at cost	60,000
Depreciation on plant and machinery	[14,400]
Debtors	50,000
Stock and work-in-progress	38,500
Creditors	[11,800]
Net profit for the year	[76,500]
Dividend paid in respect of earlier year	30,000
Provision for doubtful debts	[3,300]
Trade investments at cost	47,000
Bank	[64,300]
	0

1. Capital reserve as at the end of the year represented realised profits on sale of one freehold property together with surplus arising on the revaluation of balance of freehold properties.
2. During the year plant costing Rs.18,000 against which depreciation provision of Rs.13,500 was lying, was sold for Rs.7,000.
3. During the middle of the year Rs.50,000 debentures were issued for cash at a discount of Rs.1,000.

4. The net profit for the year was after crediting the profit on sale of plant and charging debenture interest.

You are required to prepare a statement which will explain why bank borrowing has increased by Rs.64,300 during the year end. Ignore taxation. (PM)

(Ans: cash flow from operating activities 30,500. Investing activities (1,11,800), financial activities 17,000)

Note: \_\_\_\_\_

**Problem 14: Reconciliation of Profit after tax with funds provided by operations:**  
Examine the following schedule prepared by K Ltd.

Schedule of funds provided by operations for the year ended 31<sup>st</sup> July, 2011

<i>Particulars</i>		(Rs.'000)	(Rs.'000)
Sales		32,760	
<b>Add:</b> Decrease in bills receivable.		1,000	
<b>Less:</b> Increase in accounts receivable		<u>(626)</u>	
Inflow from operating revenues (i)			33,134
Cost of goods sold	18,588		
<b>Less:</b> Decrease in inventories	(212)		
<b>Add:</b> Decrease in trades payable	<u>81</u>	18,457	
Wages and Salaries	5,284		
<b>Less:</b> Increase in wages payable	<u>(12)</u>	5,272	
Administrative Expenses	3,066		
<b>Add:</b> Increase in prepaid expenses	<u>11</u>	3,077	
Property taxes		428	
Interest expenses	532		
<b>Add:</b> Amortization of premium on bonds payable	<u>20</u>	<u>552</u>	27,786
Outflow from operating expenses (ii)			5,348
From operations (i - ii)	207		
Rent Income	<u>3</u>		
<b>Add:</b> Increase in unearned rent			<u>210</u>
	1,330		5,558
Income tax	<u>(50)</u>		
<b>Less:</b> Increase in deferred tax			<u>1,280</u>
Funds from operations			4,278

**Required:**

- What is the definition of funds shown in the schedule?
- What amount was reported as gross margin in the income statement?
- How much cash was collected from the customers?
- How much cash was paid for the purchases made?
- As a result of change in inventories, did the working capital increase or decrease and by what amount?
- How much rent was actually earned during the year?
- What was the amount of tax expenses reported on the income statement?
- Can you reconcile the profit after tax-with the funds provided by the operations?

(Ans.: Total of reconciliation statement Rs.42,78,000)

## ASSIGNMENT PROBLEMS

**Problem 1: Direct Method-Basic:** From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2015 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 31.3.2015

Particulars	Rs.'000	Particulars	Rs.'000
Balance on 1.4.2014	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	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 31.3.2015	150
	<b>3,250</b>		<b>3,250</b>

**(SM)** (Ans.: cash flow from operating activities 2,50,000. Investing activities (1,00,000), financial activities (50,000))

**Problem 2: Direct Method- Moderate:** Raj Ltd. gives you the following information for the year ended 31<sup>st</sup> March, 2015:

1. Sales for the year Rs.48,00,000. The Company sold goods for cash only.
2. Cost of goods sold was 75% of sales.
3. Closing inventory was higher than opening inventory by Rs.50,000.

**Additional information:-**

- a) Trade payables on 31.3.2015 exceed the outstanding on 31.3.2014 by Rs. 1,00,000.
- b) Tax paid during the year amounts to Rs. 1,50,000.
- c) Amounts paid to Trade payables during the year Rs. 35,50,000.
- d) Administrative and Selling expenses paid Rs. 3,60,000.
- e) One new machinery was acquired in December, 2014 for Rs. 6,00,000.
- f) Dividend paid during the year Rs. 1,20,000.
- g) Cash in hand and at Bank on 31.3.2015 Rs. 70,000.
- h) Cash in hand and at Bank on 1.4.2014 Rs. 50,000.

Prepare Cash Flow Statement for the year ended 31.3.2015 as per the prescribed Accounting standard. **(PM)**

(Ans: cash flow from operating activities 7,40,000. Investing activities (6,00,000), Financial activities (1,20,000))

**Problem 3: Direct Method - Moderate:** The following particulars relate to Bee Ltd. for the year ended 31<sup>st</sup> March, 2010:

1. Furniture of book value of Rs.15,500 was disposed off for Rs.12,000.
2. Machinery costing Rs.3,10,000 was purchased and Rs.20,000 were spent on its erection.
3. Fully paid 8% Preference shares of the face value of Rs.10,00,000 were redeemed at a premium of 3%. In this connection 60,000 equity shares of Rs.10 each were issued at a premium of Rs.2 per share. The entire money being received with applications.
4. Dividend was paid as follows:

On 8% preference shares	Rs. 40,000
On equity shares for the year 2009-10	Rs.1,10,000

- Total sales were Rs.32,00,000 out of which cash sales were Rs.11,50,000.
- Total purchases were Rs.8,00,000 including cash purchases of Rs.60,000.
- Total expenses were Rs.12,40,000
- Taxes paid including dividend tax of Rs.22,500 were Rs.3,30,000
- Cash and Cash equivalents as on 31<sup>st</sup> March, 2010 were Rs.1,25,000

You are requested to prepare cash flow statement as per AS-3 for the year ended 31<sup>st</sup> March, 2010 after taking into consideration the following also:

	On 31 <sup>st</sup> March, 2009 (Rs.)	On 31 <sup>st</sup> March, 2010 (Rs.)
Sundry Debtors	1,50,000	1,47,000
Sundry Creditors	78,000	83,000
Unpaid Expenses	63,000	55,000

(M - 10) (Ans.: cash flow from operating activities 8,52,500. Investing activities (3,18,000), financial activities (4,82,500))

**Problem 4: Direct Method - Advanced:** On the basis of the following information prepare a Cash Flow Statement for the year ended 31<sup>st</sup> March, 2015:

- Total sales for the year were Rs. 199 crore out of which cash sales amounted to Rs.131 crore.
- Cash collections from credit customers during the year, totalled Rs. 67 crore.
- Cash paid to suppliers of goods and services and to the employees of the enterprise amounted to Rs. 159 crore.
- Fully paid preference shares of the face value of Rs. 16 crore were redeemed and equity shares of the face value of Rs. 16 crore were allotted as fully paid up at a premium of 25%.
- Rs. 13 crore were paid by way of income tax.
- Machine of the book value of Rs. 21 crore was sold at a loss of Rs. 30 lakhs and a new machine was installed at a total cost of Rs. 40 crore.
- Debenture interest amounting Rs. 1 crore was paid.
- Dividends totalling Rs. 11.7 crore (including CDT) was paid on equity and preference shares.
- On 31<sup>st</sup> March, 2012 balance with bank and cash on hand totalled Rs. 9 crore.

(PM, May-13)

(Ans.: cash flow from operating activities 26 crores. Investing activities (19.30crores), financial activities (8.70crores))

**Problem 5 :** Bell Co. Ltd. submits the following information pertaining to year 2012-2013. Using the given data, you are required to prepare Cash Flow Statement for the year ended 31<sup>st</sup> March, 2013 by indirect method.

Particulars	(Rs. in millions)
Opening balance of cash and cash equivalents	1.55
Additional shares issued	6.50
Capital expenditure	9.90
Proceeds from assets sold	1.60
Dividend paid	0.50
Loss from disposal of assets	1.20
Net profit for the year	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation and Amortization	0.75

(Nov. 2013 - RTP)

(Ans.: Net Cash from operating activities Rs.3.75 million, Investing activities Rs.8.30 million, Financing Activities Rs.3.5 million)

**Problem 6:** The information of cash flow generated by two companies A Ltd. and B Ltd. belonging to same industry is as follows;

**Financial year 2009 - 2010 Cash flow statement**

<b>Particulars</b>	<b>A Ltd</b>	<b>B Ltd</b>
Opening balance	18,000	20,000
<b>Cash flow from operating activities</b>		
Receipt from sale of goods	5,000	30,000
<b>Cash from investing activities</b>		
Sale of fixed assets	20,000	3,000
<b>Cash flow from financing activities</b>		
Amount borrowed	20,000	3,000
Closing balance	63,000	55,000

Company A claims that its cash generating ability is better than that of B Ltd. Do you agree?

Comment on the cash generating ability of both companies.

*(Ans: No, B Company's Cash Generating Capacity Is Better)*

**Problem 7:** In both ways Direct Method & Indirect method-Basic: Given below is the Statement of Profit and Loss of ABC Ltd. and relevant Balance Sheet information:

**Statement of Profit and Loss of ABC Ltd. for the year ended 31<sup>st</sup> March, 2015**

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

<b>Relevant Balance Sheet information</b>	<b>31.3.2015 Rs.in lakhs</b>	<b>31.3.2014 Rs.in lakhs</b>
Trade receivables	400	250
Inventories	200	180
Trade payables	250	230

Outstanding wages	50	40
Outstanding expenses	20	10
Advance tax	195	180
Tax provision Assessed tax liability	200	180

Compute cash flow from operating activities using both direct and indirect method. **(SM)**  
(Ans: Cash flow from operating activities Rs.445lakhs)

**Problem 8: Indirect Method - Adjustment for asset:** From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.2015:

**Balance Sheets of Mr. Zen**

Liabilities	As on 1.4.2014 Rs.	As on 1.4.2015 Rs.
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
	<b>18,40,000</b>	<b>19,76,000</b>
Assets	As on 1.4.2014 Rs.	As on 1.4.2015 Rs.
Land	6,00,000	8,80,000
Plant and Machinery	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
	<b>18,40,000</b>	<b>19,76,000</b>

**Additional information:**

A machine costing Rs. 80,000 (accumulated depreciation there on Rs. 24,000) was sold for Rs. 40,000. The provision for depreciation on 1.4.2014 was Rs. 2,00,000 and 31.3.2015 was Rs. 3,20,000. The net profit for the year ended on 31.3.2015 was Rs. 3,60,000. **(PM)**  
(Ans.: cash flow from operating activities 4,72,000. Investing activities (2,40,000), financial activities (2,56,000))

**Problem 9: Indirect Method - Determination of Profit or loss of old machine sold:** From the following details relating to Grow More Ltd. prepare Cash Flow Statement:

Name of the Company : Grow More Ltd

Balance Sheet as at : 31.03.15 and 31.03.14

	Particulars	Notes No.	Figures as at the end of current reporting period 31.03.15	Figures as at the end of the previous reporting period 31.03.14
	1	2	3	4
<b>1</b>	<b>Equity and Liabilities:</b>			
	Shareholder's funds			
a	Share capital		10,00,000	8,00,000
b	Reserves and Surplus	1	3,00,000	2,10,000

2		<b>Non - current liabilities</b>			
	a	Long term borrowings (Debentures)		2,00,000	-
3		<b>Current liabilities</b>			
	a	Trade Payable(creditors)		7,00,000	8,20,000
		Short – term provisions	2	3,00,000	1,70,000
		<b>TOTAL</b>		<b>25,00,000</b>	<b>20,00,000</b>
1		<b>ASSETS:</b>			
		Non-current assets			
	a	Fixed assets			
	I	Tangible assets	3	13,00,000	9,00,000
2		<b>Current Assets</b>			
	a	Current Investments		1,00,000	-
	b	Inventories (stock)		4,00,000	2,00,000
	c	Trade receivables (debtors)		5,00,000	7,00,000
	d	Cash and cash equivalents		2,00,000	2,00,000
		<b>TOTAL</b>		<b>25,00,000</b>	<b>20,00,000</b>

## Notes to accounts:

Particulars	31.03.15	31.03.14
<b>1. Reserves and Surplus:</b>		
General Reserves	2,00,000	1,50,000
Profit and loss A/c	1,00,000	60,000
<b>2. Short – term provisions:</b>		
Provision for tax	1,00,000	70,000
Proposed dividend	2,00,000	1,00,000
<b>3. Tangible assets:</b>		
Plant and machinery	7,00,000	5,00,000
Land/building	6,00,000	4,00,000

1. Depreciation @ 25% was charged on the opening value of Plant and Machinery.
2. During the year one old machine costing 50,000 (WDV 20,000) was sold for Rs.35,000.
3. Rs.50,000 was paid towards Income tax during the year.
4. Building under construction was not subject to any depreciation.

Prepare Cash flow Statement.

(PM)

(Ans.: cash flow from operating activities 3,10,000. Investing activities (6,10,000), financial activities 3,00,000)

**Problem 10: Indirect Method-Advanced:** J Ltd. Presents you the following information for the year ended 31<sup>st</sup> March, 2007:

Particulars	Rs. In lakhs
Net Profit before tax provision	36,000
Dividend paid	10,202
Income tax paid	5,100
Book value of the assets sold	222
Loss on sale of assets	48

Depreciation debited in Profit & Loss Account	24,000
Capital grant received-Amortised in P&L a/c	10
Book value of investments sold	33,318
Profit on sale of Investments	120
Interest income from investment credited in P&L a/c	3,000
Interest expenditure debited in P&L a/c	12,000
Interest actually paid (Financing activity)	13,042
Increase in Working Capital (excluding Cash & Bank Balance)	67,290
Purchase of fixed assets	22,092
Expenditure on construction work	41,688
Grant received for capital projects	18
Long-term borrowings from banks	55,866
Provision for Income-tax debited in P&L a/c	6,000
Cash and Bank balance on 01.04.2006	6,000
Cash and Bank balance on 31.03.2007	8,000

You are required to prepare a cash flow statement as per AS-3. (Nov - 07)

(Ans.: cash flow from operating activities (3,472). Investing activities (27,168),  
Financial activities 32,640)

**Problem 11: Indirect Method-Adjustment for assets & Equity shares:** The following are the summarized Balance Sheet of Star Ltd. as on 31st March, 2010 and 2011: (Rs. '000)

Particulars	2010	2011
Equity share capital of Rs. 10 each	3,400	3,800
Profit and Loss A/c	400	540
Securities Premium	40	80
14% Debentures	800	900
Long term borrowings	180	240
Trade payables	360	440
Provision for Taxation	20	40
Proposed Dividend	300	480
	5,500	6,520
<b>Sundry Fixed Assets:</b>		
Gross Block	3,200	4,000
Less: Depreciation	(640)	(1,440)
Net Block	2,560	2,560
Investment	1,200	1,400
Inventories	1,000	1,400
Trade receivables	640	900
Cash and Bank Balance	100	260
	5,500	6,520

The Profit and Loss account for the year ended 31st March, 2011 disclosed:

Particulars	(Rs.'000)
Profit before tax	780
Less: Taxation	(160)
Profit after tax	620
Less: Proposed dividend	(480)
Retained Profit	140

The following information are also available:

- 40,000 equity shares issued at a premium of Re.1 per share.
- The Company paid taxes of Rs. 1,40,000 for the year 2010-11.
- During the period, it discarded fixed assets costing Rs. 4 lacs, (accumulated depreciation Rs. 80,000) at Rs. 40,000 only. (PM)  
(Ans.: Net Cash from operating activities Rs.13,46,000, Investing activities Rs.13,60,000, Financing Activities Rs.1,74,000)

**Problem 12: Indirect Method-Assets & Reserves:** The following are the summarized Balance Sheets of Lotus Ltd. as on 31st March 2014 and 2015:

Liabilities	As on 31.03.2014 Rs.	As on 31.03.2015 Rs.
Equity share capital (Rs. 10 each)	10,00,000	12,50,000
Capital reserve		10,000
Profit and loss A/c	4,00,000	4,80,000
Long term loan from the bank	5,00,000	4,00,000
Trade payables	5,00,000	4,00,000
Provision for taxation	50,000	60,000
	<b>24,50,000</b>	<b>26,00,000</b>
Assets	Rs.	Rs.
Land and building	4,00,000	3,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Inventory	3,00,000	2,80,000
Trade receivables	4,00,000	4,20,000
Cash in hand	2,00,000	1,40,000
Cash at bank	3,00,000	4,10,000
	<b>24,50,000</b>	<b>26,00,000</b>

**Additional information:**

- Depreciation written off on land and building Rs. 20,000.
- The company sold some investment at a profit of Rs. 10,000, which was credited to Capital Reserve.
- Income-tax provided during the year Rs. 55,000.
- During the year, the company purchased a machinery for Rs.2,25,000. They paid Rs.1,25,000 in cash and issued 10,000 equity shares of Rs. 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March 2015 as per AS 3 by using indirect method. (PM)

(Ans: Net cash flow from operating activities Rs. 65,000; Investing activities (Rs. 65,000); Financing activities Rs. 50,000)

**Problem 13: Indirect Method - Asset and Pre - acquisition dividend:** The following are the summarized Balance Sheets of 'X' Ltd. as on March 31, 2014 and 2015:

Liabilities	As on 31.03.2014 (Rs.)	As on 31.03.2015 (Rs.)
Equity share capital	15,00,000	16,50,000
Capital Reserve	---	10,000

General Reserve	2,50,000	3,00,000
Profit and Loss A/c	1,50,000	1,80,000
Trade payables	5,00,000	4,00,000
Provision for Taxation	50,000	60,000
Proposed Dividends	1,00,000	1,25,000
	<b>25,50,000</b>	<b>27,25,000</b>
<b>Assets</b>	<b>Year 2014 (Rs.)</b>	<b>Year 2015(Rs.)</b>
Land and Building	5,00,000	4,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
inventory	3,00,000	2,80,000
Trade receivables	4,00,000	4,20,000
Cash in Hand	2,00,000	1,65,000
Cash at Bank	3,00,000	4,10,000
	<b>25,50,000</b>	<b>27,25,000</b>

**Additional Information:**

1. Dividend of Rs. 1,00,000 was paid during the year ended March 31, 2015.
2. Machinery during the year purchased for Rs. 1,25,000.
3. Machinery of another company was purchased for a consideration of Rs. 1,00,000 payable in equity shares.
4. Income-tax provided during the year Rs. 55,000.
5. Company sold some investment at a profit of Rs. 10,000, which was credited to Capital reserve.
6. There was no sale of machinery during the year.
7. Depreciation written off on Land and Building Rs. 20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2015 as per AS 3 (Indirect method). (PM)

(Ans.: Net Cash from operating activities Rs.1,90,000, Investing activities Rs.(65,000), Financing Activities Rs.(50,000))

**ABC ANALYSIS**

	A Category	B Category	C Category
Class Room Problems	2, 3, 8, 11,	1, 4, 6, 7, 9,14	5, 10, 12, 13
Assignment Problems	2, 3, 4, 7, 12	1, 9, 10, 11	8, 5, 6

Verified by: Hari Narayana sir, Anil sir,

Executed by: Rajasekhar Sir

**THE END**