

Cash Flow Statement

Question:1

Identify the transactions as belonging to *i* Operating Activities, *ii* Investing Activities, *iii* Financing Activities and *iv* Cash and Cash Equivalents:

- a* Cash Sale of Goods
b Cash Received against Revenue from Services rendered
c Cash Purchase of Goods
d Cash Paid against Services Taken
e Patents Purchased
f Marketable Securities
g Bank Overdraft
h Proceeds from Issue of Debentures
i Purchase of Shares
j Repayment of Long-term Loan
k Commission Received
l Redemption of Debentures
m Interest on Debentures
n Interest on Investments
o Income Tax Paid
p Income Tax Paid on Gain of Sale of Asset
q Cash Received from Debtors
r Cash Paid to Creditors.

Solution:

OPERATING ACTIVITY	INVESTING ACTIVITY	FINANCING ACTIVITY	CASH AND CASH EQUIVALENTS
a. Cash Sale of Goods b. Cash Received against Revenue from Services rendered c. Cash Purchase of Goods d. Cash paid against Services Taken k. Commission Received o. Income Tax paid q. Cash Received from Debtors r. Cash Paid to Creditors	e. Patents Purchased i. Purchase of Shares n. Interest on Investments p. Income Tax paid on Gain on Sale of Asset	g. Bank Overdraft h. Proceeds from Issue of Debentures j. Repayment of Long-term Loan l. Redemption of Debentures m. Interest on Debentures	f. Marketable Securities

Question:2

Classify the following transactions as Operating Activities for a financial company and a non-financial company:

- a* Purchase of Shares on a Stock Exchange.
b Dividend received on Shares.
c Dividend paid on Shares.
d Loans given.
e Loans taken.
f Interest paid on borrowings.

Solution:

OPERATING ACTIVITY	
Financial Company	Non-Financial Company
a. Purchase of Shares on a Stock Exchange	-
b. Dividend received on shares	
d. Loans given	
e. Loans taken	
f. Interest paid on borrowings	

A financial company deals with securities like shares, bonds, debentures, etc on a regular basis. These securities form part of their stock and hence purchase and sale of these securities will be categorised under Operating Activity. But, Dividend paid by them will be the part of Financing Activities.

However, for a non-financial company issue of shares, debentures, etc form part of financing activities as such issue will increase the capital employed in the business.

Question:3

State which of the following would result in inflow/outflow or no flow of Cash and Cash Equivalents:

- a* Sale of Fixed Assets, Book Value 1,00,000 at a profit of 0,000.
b Sale of goods against cash.
c Purchase of machinery for cash.
d Purchase of Land and Building for 0,00,000. Consideration paid by issue of debentures.
e Issued fully paid Bonus Shares.
f Cash withdrawn from bank.
g Payment of Interim Dividend.
h Proposed Dividend.

Solution:

Inflow	Outflow	No Flow
a. Sale of Fixed Assets	c. Purchase of Machinery for cash	d. Purchase of Land and Building. Consideration paid by issue of Debentures.
b. Sale of goods against cash	g. Payment of Interim Dividend	e. Issued fully paid bonus shares
		f. Cash withdrawn from Bank
		h. Proposed Dividend

Question:4

For each of the following transactions, calculate the resulting Cash Flow and state the nature of Cash Flow, i.e., whether it is Operating, Investing or Financing:

- a Acquired machinery for 2,50,000 paying 20% by cheque and executing a bond for the balance payable.
 b Paid 2,50,000 to acquire shares in Informa Tech Ltd. and received a dividend of 50,000 after acquisition.
 c Sold machinery of original cost of 2,00,000 with an accumulated depreciation of 1,60,000 for 60,000.

Solution:

- a Investing Activity: 50,000
 b Investing Activity: 2,00,000
 c Investing Activity: 60,000

Question:5

Following are the extracts from the Balance Sheet of MAH Ltd. as at 31st March, 2019:

Particular	31 st March 2019	31 st March 2018
Surplus, i.e., Balance in Statement of Profit and Loss	10,00,000	5,00,000
Dividend Payable	50,000	—

Additional Information: Proposed Dividend for the years ended 31st March, 2018 and 2019 are 4,00,000 and 5,00,000 respectively.

Prepare the Note to show Net Profit before Tax and Extraordinary Items.

Solution:

Particulars	Amount
Profit as per Statement of Profit and Loss	5,00,000
10,00,000—5,00,000	
Add: Proposed Dividend (<i>Current Year</i>)	4,00,000
Profit Before Taxation and Extraordinary Items	9,00,000

Question:6

Following is the extract from the Balance Sheet of Zee Ltd.:

Particular	31 st March 2019	31 st March 2018
Equity Share Capital	8,00,000	8,00,000
10% Preference Share Capital	6,00,000	6,00,000
Surplus i.e., Balance in Statement of Profit and Loss	7,20,000	4,00,000
Unpaid Dividend	20,000	—

Additional Information:

i Proposed dividend on equity shares for the year 2017-18 and 2018-19 are 1,60,000 and 2,00,000 respectively.

ii An Interim Dividend of 40,000 on Equity Shares was paid.

Calculate Net Profit before Tax and Extraordinary Items.

Solution:

Particulars	Amount
Profit as per Statement of Profit and Loss	3,20,000
7,20,000—4,00,000	
Add: Proposed Dividend (<i>Current Year</i>)	1,60,000
Add: Proposed Preference Dividend (<i>Current Year</i>) 10% of 6,00,000	60,000
Add: Interim Dividend	40,000
Profit Before Taxation and Extraordinary Items	5,80,000

Question:7

Calculate Net Profit before Tax and Extraordinary Items of Premier Sales Ltd. from its Balance Sheet as at 31st March, 2019:

Particulars	Note No.	31st March, 2019	31st March, 2018
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a Share Capital		5,00,000	5,00,000
b Reserves and Surplus (Surplus, i.e., Balance in Statement of Profit and Loss)		2,00,000	1,45,000
2. Current Liabilities			
a Trade Payables		90,000	50,000
b Other Current Liabilities		20,000	10,000
c Short-term Provisions		50,000	30,000
Total		8,60,000	7,35,000
II. ASSETS			
1. Non-Current Assets			
a Fixed Assets		4,50,000	4,00,000
b Non-Current Investments		50,000	1,50,000
2. Current Assets		2,60,000	1,85,000
Total		8,60,000	7,35,000

Particulars	31st March, 2019	31st March, 2018
I. Short-term Provisions		
Provision for Tax	50,000	30,000

Additional Information:

- i Proposed Dividend for the years ended 31st March, 2018 and 2019 are 50,000 and 75,000 respectively.
 ii Interim Dividend paid during the year was 10,000.

Solution:

	Particulars	Amount
	Profit as per Statement of Profit and Loss 2,00,000–1,45,000	55,000
	Add: Proposed Dividend (<i>Current Year</i>)	50,000
	Add: Provision for Taxation (<i>Current Year</i>)	50,000
	Add: Interim Dividend Paid	10,000
	Profit Before Taxation and Extraordinary Items	1,65,000

Question:8

From the following information, calculate Net Profit before Tax and Extraordinary Items:

Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	1,00,000
Opening	
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	3,36,000
Closing	
Dividend paid in the current year	72,000
Interim Dividend Paid during the year	90,000
Transfer to Reserve	1,00,000
Provision for Tax for the current year	1,50,000
Refund of Tax	3,000
Loss due to Earthquake	2,00,000
Insurance Proceeds from Earthquake disaster settlement	1,00,000

Solution:

Cash Flow Statement
for the year ended...

	Particulars	Amount Rs
A	Cash Flow from Operating Activities	
	Profit as per Statement of Profit and Loss (3,36,000 – 1,00,000)	2,36,000
	Add: Transfer to Reserve	1,00,000
	Proposed Dividend	72,000
	Interim Dividend	90,000
	Provision for Tax	1,50,000
	Extraordinary Items <i>Loss due to Earthquake</i>	2,00,000
	Less: Extraordinary Items	1,00,000
	<i>Insurance Proceeds from Earthquake disaster settlement</i>	
	Refund of Tax	3,000
	Net Profit before Tax and Extraordinary Items	7,45,000

Question:9

From the following information, calculate Operating Profit before Working Capital Changes:

Net Profit before Tax and Extraordinary Items	4,47,000
Depreciation on Machinery	84,000
Interest on Borrowings	16,800
Goodwill Amortised	18,600
Loss on Sale of Furniture	18,000
Premium on Redemption of Preference Shares	6,000
Gain <i>Profit</i> on Sale of Investments	12,000
Interest and Dividend Received on Investments	27,600

Solution:

Cash Flow Statement
for the year ended March 31,

	Particulars	Amount	Amount
A	Cash Flow from Operating Activities		
	Net Profit Before Taxation and Extraordinary Items		4,47,000
	<i>Items to be Added:</i>		
	Depreciation on Machinery	84,000	
	Loss on Sale of Furniture	18,000	
	Interest on Borrowings	16,800	
	Goodwill Amortized	18,600	
			1,37,400
	<i>Items to be Deducted:</i>		
	Profit on Sale of Investment	12,000	
	Interest and Dividend Received on Investment	27,600	
	Operating Profit before Working Capital Adjustments		39,600
			5,44,800

Note: Assuming Premium on Redemption of Preference Shares has been paid out of the Securities Premium Reserve Balance.

Question:10

From the following Balance Sheet of Double Tree Ltd. as at 31st March, 2019 and additional information, calculate Operating Profit before Working Capital Changes:

Particulars	Note No.	31st March, 2019	31st March, 2018
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a Share Capital		5,00,000	5,00,000
b Reserves and Surplus	1	6,70,000	5,00,000
2. Current Liabilities			
a Trade Payables		60,000	50,000
b Other Current Liabilities <i>Outstanding Expenses</i>		20,000	15,000
c Short-term Provisions <i>Provision for Tax</i>		1,00,000	90,000
Total		13,50,000	11,55,000
II. ASSETS			
1. Non-Current Assets			
a Fixed Assets <i>Tangible</i>		7,50,000	7,30,000
b Non-Current Investments		2,50,000	3,00,000
2. Current Assets		3,50,000	1,25,000
Total		13,50,000	11,55,000

Particulars	31st March, 2019	31st March, 2018
I. Reserve and Surplus		
General Reserve	5,00,000	4,00,000
Surplus, i.e., Balance in Statement of Profit and Loss	1,70,000	1,00,000
	6,70,000	5,00,000

Additional Information: Depreciation for the year was 75,000.

Solution:
Computation of Operating Profit before Working Capital Changes

for the year ended March 31, 2019

Particulars	Amount	Amount
Profit as per Statement of Profit and Loss		70,000
1,70,000 – 1,00,000		
Transfer to General Reserve 5,00,000 – 4,00,000		1,00,000
Provision for Taxation (<i>Current Year</i>)		1,00,000
Profit before Tax		2,70,000
<i>Items to be Added:</i>		
Depreciation for the year		75,000
Operating Profit before Working Capital Changes		3,45,000

Question:11

Calculate Cash Flow from Operating Activities from the following details:

Particulars	31st March, 2019	31st March, 2018
Surplus, i.e., Balance in Statement of Profit and Loss	80,000	60,000
Trade Receivables	25,000	31,000
Provision for Depreciation	40,000	30,000
Inventories	80,000	60,000
Outstanding Rent	12,000	21,000
Goodwill	30,000	38,000
Prepaid Insurance	1,000	2,000
Trade Payables <i>Creditors</i>	13,000	19,000

Solution:

Particulars	Amount	Amount
Profit as per Statement of Profit and Loss <i>Net Income</i>		20,000
<i>Items to be Added:</i>		
Depreciation	10,000	
Goodwill written off	8,000	18,000
Operating Profit before Working Capital Changes		38,000
<i>Add: Decrease in Current Assets</i>		
Trade Receivables	6,000	
Prepaid Insurance	1,000	
<i>Less: Increase in Current Assets</i>		
Inventories	20,000	
<i>Less: Decrease in Current Liabilities</i>		
Outstanding Rent	9,000	
Trade Payables	6,000	28,000
Cash Generated from operations		10,000
<i>Less: Tax Paid</i>		Nil
Net Cash Flows from Operating Activities		10,000

Question:12

Compute Cash Flow from Operating Activities from the following information:

Particulars	
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Net Profit after Provision for Tax and Payment of Dividend	2,15,000
Provision for Tax	45,000
Final Dividend paid during the year	50,000
Depreciation	25,000
Loss on Sale of Machinery	10,000
Patents Amortised	30,000
Gain on Sale of Land	70,000
Income Tax Refund	30,000

Solution:

Cash Flow from Operating Activities

	Particulars	Amount Rs	Amount Rs
	Net Profit after Provision for Tax and Proposed Dividend		2,15,000
	Add: Provision for Tax		45,000
	Add: Proposed Dividend		50,000
	Profit Before Taxation		3,10,000
	<i>Items to be Added:</i>		
	Depreciation	25,000	
	Loss on Sale of Machinery	10,000	
	Patents Amortised	30,000	65,000
	<i>Items to be Deducted:</i>		3,75,000
	Income Tax Refund	30,000	
	Gain on Sale of Land	70,000	1,00,000
	Operating Profit before Working Capital Changes		2,75,000
	Less: Net Tax Paid 45,000–30,000		15,000
	Net Cash Flows from Operating Activities		2,60,000

Question:13

Calculate Cash Flow from Operating Activities from the following:

i Profit form the year is 7,00,000 after considering the following items:

Particulars	
Depreciation on Fixed Assets	40,000
Goodwill Amortised	20,000
Gain on Sale of Land	90,000
Appropriation of Profit towards General Reserve	60,000

ii Following is the position of Current Assets and Current Liabilities

Particulars	Closing Balance	Opening Balance
Trade Payables	50,000	75,000
Trade Receivables	75,000	60,000
Prepaid Expenses	10,000	18,000

Solution:

Cash Flow from Operating Activities

	Particulars	Amount Rs	Amount Rs.
	Profit as per Statement of Profit and Loss		7,00,000
	Add: Transfer to General Reserve		60,000
	Profit Before Tax and Extraordinary items		7,60,000
	<i>Items to be Added:</i>		
	Depreciation on Fixed Asset	40,000	
	Goodwill Amortised	20,000	60,000
			8,20,000
	<i>Items to be Deducted:</i>		
	Gain on Sale of land	90,000	90,000
	Operating Profit before Working Capital Adjustments		7,30,000
	Add:Decrease in Prepaid Expenses	8,000	8,000
			7,38,000
	Less: Decrease in Trade Payables	25,000	
	Less: Increase in Trade Receivables	15,000	40,000
	Net Cash Flows from Operating Activities		6,98,000