

## CHAPTER 5

### CASH FLOW STATEMENT

#### Points to Remember :

1. First decide the nature of enterprise it is financial or Non-Financial.
2. For Calculating depreciation, check the Balance Sheet to find out that values of assets are given at net value (i.e., written down value) or at Gross Block (Shown Accumulated dep. A/c also). There after attempt question according to the instructions.
3. Current Investment or marketable securities is a part of Cash and Cash equivalent as per As-3 (revised.) if both are given separately than marketable securities will be consider as cash equivalent and remaining current Investment will consider in Investing activities.
4. Bank overdraft and cash credit will be consider in financial activity not under working capital changes in operating activities.

Meaning : It is a statement that shows flow (Inflow or outflow) of cash and cash equivalents during a given period of time.

As per Accounting Standard-3 (Revised) the changes resulting in the flow of cash & cash equivalent arises on account of three types of activities i.e.,

- (1) Cash flow from Operating Activities.
- (2) Cash flow from Investing Activities.
- (3) Cash flow from Financing Activities.

Cash: Cash comprises cash in hand and demand deposits with bank.

Cash equivalents: Cash equivalents are short-term, highly liquid investment that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value e.g. short-term investment. Generally, these investments have a maturity period of less than three months.

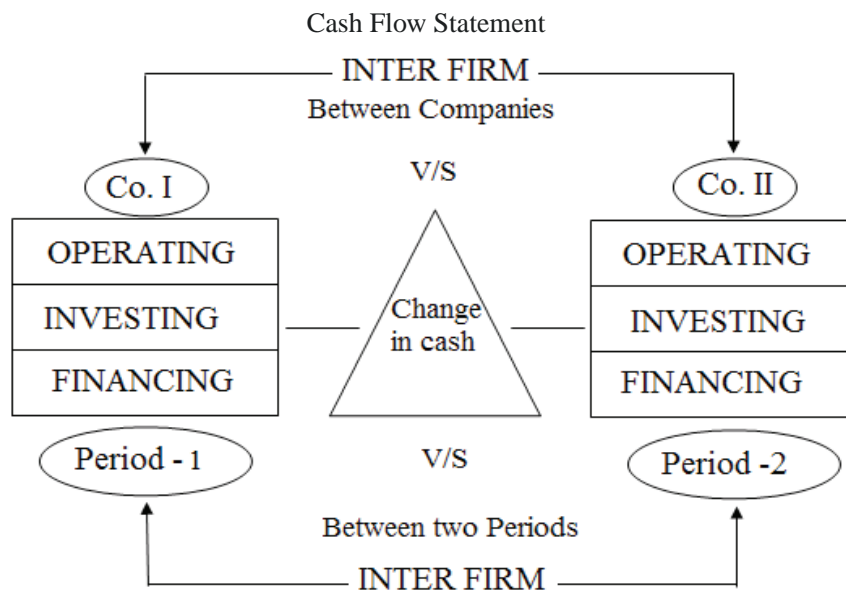
Some examples of cash equivalent: Short-term deposits, marketable securities, treasury bills, commercial papers, money market funds, investment in preference shares if redeemable within three months provided that there is no risk of the failure of the company.

Some types of transaction which are considered movement between cash and cash equivalents are given below:

1. Cash deposited into bank.
2. Cash withdrawn from bank.

3. Sale of cash equivalent securities (e.g. Sale of short-term investment, sale of commercial papers)
4. Purchases of cash equivalent securities (e.g. Purchase of short-term investment, Purchases of Treasury bills).

The above types of transaction are part of cash and equivalents, so these are included in opening and closing cash and cash equivalent only. So these types of transaction should not be included in cash flow from different activities like operating, investing, financing activities.



Preparation of cash flow statement

Cash flow from operating activities (A)	.....
Cash flow from investing activities (B)	.....
Cash flow from financing activities (C)	.....
Net increase/decrease in cash & cash equivalent (Total of the above three activities) (A+B+C)	.....
Add: Cash & Cash equivalent in the beginning of the year (Given in opening balance sheet)	.....
Cash & Cash equivalent at the end of the year	.....

Note 1: The student should ensure that the Cash & Cash equivalent at the end of the year as calculated above will be same as cash & cash equivalent given in closing balance sheet.

Note 2: A,B,C can have negative balance as well indicating cash used in operating investing & financing activities respectively.

#### Objectives of Cash Flow Statement

1. To ascertain how much cash or cash equivalents have been generated or used in different activities i.e., operating/investing/financing activity.
2. To ascertain the net changes in cash and cash equivalents.
3. To assess the causes of difference between actual cash & cash equivalent and related net earnings/income.
4. To help in formulation of financial policies such as dividend policy, fixed assets policy, capital structure related policy.
5. To help in short-term financial planning.
6. To ascertain the liquidity of enterprises.

#### Limitations of Cash Flow Statement

1. Non cash transactions are not taken into consideration like shares or debentures issued to vendors, depreciation charged during the year.
2. It is a statement related with past data.
3. It is not used for judging the profitability of enterprise.
4. Accrual accounting concept is ignored in this statement e.g. credit sales, credit purchases, outstanding expenses, accrued income are not included.

#### Computation of Cash flows from different activities.

- (1) Cash flow from operating activities : Operating activities are the main revenue generating activities of the enterprises. It also includes all those transactions which are not included in investing and financing activities.

Indirect Method of calculating the cash flow from Operating Activities : Under this method Net Profit before Tax and Extra-ordinary Item is the starting point for further calculations.

(A) Calculation of Net Profit before Tax and Extra-ordinary Items:

Difference between closing balance and opening balance of Balance in Statement of Profit & Loss A/c

.....

Add:	1. Dividend (final or proposal) paid during the year	.....
	2. Interim Dividend paid during the year	.....
	3. Profit Transferred to Reserve	.....
	(If reserve of current year increased from previous year)	.....
	4. Provision for Taxation made during the year	.....
	5. Extra Ordinary Item.	.....
	If any Debited to Statement of Profit & Loss	.....
Less:	1. Refund of Tax credited to Statement of P&L	(.....)
	2. Extraordinary-item if any credited to Statement of P&L	(.....)
	3. Reserves transferred back to statement of Profit and Loss	(.....)
	(.....)	
	Net Profit before Tax and Extra-ordinary items	.....)

Extraordinary items: These items are not related to normal business operation.

Format :Cash Flow from Operating Activities

	₹
<b>I. Cash Flow from Operating Activities</b>	
(A) Net Profit before Tax and Extraordinary Items (as per Working Note)	...
Adjustment for Non-cash and Non-operating Items	
(B) <b>Add: Items to be Added</b>	
— Depreciation	...
— Goodwill, Patents and Trademarks Amortised	...
— Interest on Bank Overdraft/Cash Credit	...
— Interest on Borrowings (Short-term and Long-term) and Debentures	...
— Writing off Underwriting Commission/Share Issue Expenses	...
— Loss on Sale of Fixed Assets	...
— Increase in Provision for Doubtful Debts*	... ..
	...
(C) <b>Less: Items to be Deducted</b>	
— Interest Income	...
— Dividend Income	...
— Rental Income	...
— Gain (Profit) on Sale of Fixed Assets	...
— Decrease in Provision for Doubtful Debts*	... ..
	...
(D) <b>Operating Profit before Working Capital Changes (A + B - C)</b>	...
(E) <b>Add: Decrease in Current Assets and Increase in Current Liabilities</b>	
— Decrease in Inventories (Stock)	...
— Decrease in Trade receivables (Debtors/Bills Receivable)	...
— Decrease in Accrued Incomes	...

—	Decrease in Prepaid Expenses	...	
—	Increase in Trade Payables (Creditors/Bills Payable)	...	
—	Increase in Outstanding Expenses	...	
—	Increase in Advance Incomes	...	...
(F)	<b>Less: Increase in Current Assets and Decrease in Current Liabilities</b>		...
—	Increase in Inventories (Stock)	...	
—	Increase in Trade Receivables (Debtors/Bills Receivable)	...	
—	Increase in Accrued Incomes	...	
—	Increase in Prepaid Expenses	...	
—	Decrease in Trade Payables (Creditors/Bills Payable)	...	
—	Decrease in Outstanding Expenses	...	
—	Decrease in Advance Incomes	...	...
(G)	<b>Cash Generated from Operations (D + E-F)</b>		...
(H)	Less: Income Tax Paid (Net of Tax Refund)		...
(I)	Cash Flow before Extraordinary Items		...
	Extraordinary Items (+/-)		...
(U)	Cash Flow from (or Used in) Operating Activities		...

For the calculation of provision for Taxation made during the current year, the Provision for Taxation A/c is to be prepared as follows.

#### Provision for Taxation Account

Dr.

Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c (Tax Paid during the current year)	.....		By Balance b/d	.....
	To Balance c/d	.....		By Statement of P&L (Provision for taxation made during the current year)	.....
		.....			.....

Illustration 1. X Ltd. made a profit of 1,00,000 after considering the following items:

1.	Depreciation of fixed assets	₹ 20,000
2.	Writing off preliminary expenses	₹ 10,000
3.	Loss on sale of furniture	₹ 1,000
4.	Provision of Taxation	₹ 1,60,000
5.	Transfer to General reserve	₹ 14,000
6.	Profit on sale of Machinery	₹ 6,000

The following additional information is available to you:

Particulars	31.03.2016 (₹)	31.03.2017 (₹)
Debtors	24,000	30,000
Creditors	20,000	30,000
Bills Receivables	20,000	17,000
Bills Payables	16,000	12,000
Prepaid Expenses	400	600

Calculate Cash Flow from Operating Activities.

Solution:

Calculation of Net Profit before Tax and Extra-ordinary items:

Net Profit (Given)	₹ 1,00,000
Add: Provision for Taxation	₹ 1,60,000
Transfer to general reserve	<u>₹ 14,000</u>
Net Profit before Tax and Extra-ordinary item	<u>₹ 2,74,000</u>

#### Cash Flow from Operating Activities

Particulars	₹	₹
1. Cash flow from Operating Activities		
Net Profit Before Tax And Extra-ordinary Item		2,74,000
Adjustment for non-cash and non-operating items:		
Add : Depreciation on fixed assets	20,000	
Preliminary expenses written off	10,000	

Loss on sale of furniture	1,000	31,000
Less: Profit on sale on machinery	6000	3,05,000 (6,000)
Operating Profit before working capital changes		2,99,000
Adjustment for Working Capital Changes		
Add: Increase in creditors	10,000	
Decrease in Bills Receivables	3,000	13,000
Less: Increase in Debtors	6,000	3,12,000
Increase in prepaid Expenses	200	
Decrease in Bills Payable	4,000	(10,200)
Cash generated from operation before Tax		3,01,800
Less: Income tax Paid		(1,60,000)
Net Cash inflow from Operating Activities		1,41,800

## 2. Cash Flow from Investing Activities

Investing activities are those activities which are related to the acquisition (buying) and disposal (selling) of fixed assets and investment (other than cash equivalents). It also includes income from fixed assets and investment like rent received, interest received on investment, dividend received on investment in shares and mutual funds.

Inflows of Cash: (Plus items)	Outflows of Cash (minus items)
Cash Received from sale of Fixed Assets.	Cash paid for purchase of fixed assets.
Cash Received from sale of Investment. Excluding Marketable Securities	Cash paid for purchase of investment. Excluding Marketable Securities
Cash Received from sale of intangible Assets like Patents.	Cash paid for purchase of intangible Fixed assets like goodwill, patents and copy rights.
Interest Received,	
Dividend Received,	
Rent Received	

For the calculation of sale or purchase of fixed assets and investment, the following accounts are prepared:

1. Fixed Assets Account
2. Investment Account

Fixed Assets Account: Fixed assets accounts may be prepared by two methods:

- (a) At written down value method (when provision for depreciation account/ accumulated depreciation account is not maintained):

Fixed Assets Account (at written down value).

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	.....		By Bank A/c (Sale of investment)	.....
	To Bank A/c (Additional Purchase)	.....		By Depreciation A/c (Depreciation on fixed assets sold)	.....
	To Profit on sale of fixed assets A/c	.....		By Loss on sale of fixed assets A/c	.....
				By Depreciation A/c (Current year Depreciation on remaining fixed assets)	.....
				By Balance c/d	.....
		.....			.....

- (b) fixed Assets (at cost); When provision for depreciation account or accumulated depreciation account has been separately maintained. In this method two separate accounts named Fixed Assets Account and Provision for Depreciation account are maintained

Fixed Assets Account (at original cost)

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	.....		By Bank A/c (Sale of investment)	.....
	To Bank A/c (Additional Purchase)	.....		By Provision for Depreciation A/c (Dep. on fixed assets sold)	.....
	To Profit on sale of fixed assets A/c	.....		By Loss on sale of fixed assets A/c	.....
				By Balance c/d	.....
		.....			.....

Provision for Depreciation Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Fixed Assets A/c (Total Depreciation provide till the date of sale on Fixed assets sold)	.....		By Balance b/d	.....
	To balance c/d	.....		By Statement of Profit & Loss A/c (Depreciation charged on fixed assets during the current year including the part sold)	.....
		.....			.....



### Preparation of Investment Account:

Dr.			Investment Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
	To Balance b/d	.....		By Bank A/c	.....			
	To Bank A/c (Additional Purchase)	.....		(Sale of investment)	.....			
	To Profit on sale of investment A/c	.....		By Loss on sale of Investment A/c				
		.....		By balance c/d	.....			
		.....			.....			

Illustration2. From the following information calculate cash flow from investing activities:

Particulars	31-03-2014(₹)	31-03-2015 (₹)
Machinery (at Cost)	5,00,000	5,50,000
Accumulated Depreciation	1,00,000	1,20,000
Patents	2,00,000	1,20,000
Goodwill	1,50,000	1,00,000
Investment	2,50,000	5,00,000

Additional Information

- (i) During the year, a machine costing ₹50,000 with its accumulated depreciation of ₹ 25,000 was sold for ₹ 20,000.
- (ii) Patents were written off to the extent of ₹ 60,000 and some patents were sold at a profit of ₹ 10,000.
- (iii) 40% of the investments held in the beginning of the year were sold at 10% Profit.
- (i ) Interest received on investment ₹ 25,500.
- ( ) Dividend received on investment ₹ 8,500.
- ( i ) Rent received ₹ 5,000.

Solution:

### Cash Flow from Investing Activities

Particulars	₹
Proceeds from sale of machinery	20,000
Proceeds from sale of investment	1,10,000
Proceeds from sale of Patents	30,000
Cash paid for purchase of machinery	(1,00,000)
Cash paid for purchase of Investment	(3,50,000)
Interest Received	25,500
Dividend Received	8,500
Rent Received	5,000
Net Cash Used in Investing Activities	(2,51,000)

Working Notes:

Investment Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	2,50,000		By Bank A/c	1,10,000
	To Profit on sale of Investment A/c	10,000		(Sale of investment)	
	To Bank A/c B/F) (Additional Purchase)	3,50,000		By balance c/d	5,00,000
		6,10,000			6,10,000

Machinery Account (at original cost)

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	5,00,000		By Bank A/c	20,000
	To Bank A/c (additional Purchase) (B/F)	1,00,000		(Sale of investment)	
		6,00,000		By Provision for Depreciation A/c (Dep. on Machinery sold)	25,000
				By Loss on sale of Machinery A/c	5,000
				By balance c/d	5,50,000
		6,00,000			6,00,000

Provision for Depreciation Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Machinery A/c	25,000		By Balance b/d	1,00,000
	(Total Depreciation on Machinery sold)			By Statement of Profit & Loss	45,000
	To Balance c/d	1,20,000		(Depreciation charged on machinery during the current year) (B/F)	
		1,45,000			1,45,000

Patents Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	2,00,000		By Bank A/c	30,000
	To Profit on sale of patents A/c	10,000		(B/F – Sale of Patents)	
				By Statement of Profit & Loss (Written off)	60,000
				By balance c/d	1,20,000
		2,10,000			2,10,000

3. Cash Flow from Financing Activities

Financing activities are those activities that result in the change in size and composition of the share capital (equity and preference) and borrowed fund of the business enterprises. Generally cost related to these funds are also included in financing activities like interest paid on loans and debentures and dividend paid on equity and preference share capital.

Inflows of Cash: (Plus items)	Outflows of Cash (minus items)
1. Proceeds from Issue of equity shares capital.	1. Amount paid for repayment of long-term loan.
2. Proceeds from Issue of preference share capital.	2. Redemption of Preference share capital in cash.
3. Proceeds from taking long-term loan and issue of debentures.	3. Redemption of Debenture in cash.
4. Proceeds from Bank Overdraft and Cash credit.	4. Buy back of Equity shares (Extra-Ordinary Item)
	5. Payment of Bank Overdraft and Cash Credits.
	6. Interest paid on long term loan and debentures
	7. Final Dividend paid.
	8. Interim dividend paid.
	9. Dividend paid on Preference Shares.

Illustration3. From the following information, calculate the net cash flow from Financing Activities.

Particulars	31-3-2017 (₹)	31-3-2018 (₹)
Equity Share Capital	10,00,000	16,00,000
9% Debentures	1,50,000	1,00,000
Dividend Payable	.....	50,000
10% Preference Share Capital	2,00,000	3,00,000

Additional Information

- Interest paid on Debentures ₹ 12,500.
- During the year 2017-2018, company issued bonus shares to equity shareholders in the ratio of 2:1 by capitalizing reserve.
- The interim dividend of ₹ 75,000 has been paid during the year.
- 9% Debentures were redeemed as 5% premium.
- Proposed equity dividend for the years ended 31/3/2017 and 31/3/2018 ended ₹ 3,00,000 and ₹ 150,000 respectively.

Solution:

**Cash Flow from Financing Activities**

Particulars	₹
Proceeds from Issue of Equity Share Capital	1,00,000
Proceeds from Issue of 10% Preference Share Capital	1,00,000
Cash paid for Redemption of 9% Debentures (50,000 × 105%)	(52,500)
Interest paid on Debentures	(12,500)
interim Dividend paid	(75,000)
Final Dividend paid (3,00,000-50,000)	(2,50,000)
Net Cash Used in Financing Activities)	1,90,000

Note:

1. Bonus shares worth ₹ 5, 00,000 issued to equity shareholder are not to be shown in the cash flow statement because there is no flow of cash by this activity.
2. As per the provisions of As-4, dividend proposed by the Directors of the company for the current year Rs. 15,0000 will be shown in the notes to accounts as contingent liability. Dividend of the previous year of Rs. 3,00,000 has been declared and approved in the annual general meeting of shareholders for current year will be shown as appropriation of profits of current year so will be added to determine the net profit before dividend, taxes and extraordinary item and as an outflow from the firm under the financing activity.
3. Previous year proposed dividend- unpaid dividend = final dividend paid during the current year is cash used in financing activities.

#### Financing Business Enterprise Transaction Treatment in Cash Flow Statement

Financing business enterprises are the business enterprises which deal in finance like investment companies, mutual fund house, banks. These enterprises purchases and sale of securities as their stock, so it is treated as operating activities and interest received, dividend received and interest paid are considered as routine business activities and included in their operating activities.

Comprehensive Illustration4: From the following Balance Sheets of X Ltd. as on 31.03.2016 and 31.03.2017. Prepare a cash flow statement.

Balance Sheet as at 31st March, 2016 and 2017

Particulars	Note No.	Figures as at the end of 31.3.2016 (₹)	Figures as at the end of 31.3.2017 (₹)
I. Equity and Liabilities			
Shareholders' funds			
(a) Share capital		45,000	65,000
(b) Reserves and surplus		25,000	42,500
Current liabilities			

Trade payables		8,700	11,000
	Total	78,700	1,18,500
II. Assets			
(1) Non-current assets			
(a) Fixed assets			
	(i) Tangible Assets	46,700	83,000
(2) Current Assets			
	Inventories	11,000	13,000
	Trade receivables	18,000	19,500
	Cash and cash equivalents	3,000	3,000
	Total	78,700	1,18,500

Notes to Accounts

Particulars	Figures as at the end of 31.3.2016	Figures as at the end of 31.3.2017
	(₹)	(₹)
Note No.1. Reserve and Surplus: General Reserve	15,000	27,500
Balance in Statement of P&L A/c	10,000	15,000
Total	25,000	42,500

Additional Information:

- (i) Depreciation on fixed assets for the year 2016-17 was ₹ 14,700.
- (ii) An interim dividend ₹ 7,000 has been paid to the shareholders during the year.

Solution:

Calculation of Net Profit before Tax and Extraordinary item:	₹
Net Profit as per Balance in Statement of Profit & Loss A/c (15000-10,000)	5,000
Add: Transfer to General Reserve (27,500 – 15,000)	12,500
Add: Interim dividend paid during the year	7,000
Net Profit before Tax and Extraordinary item	24,500

**Cash Flow Statement**  
For the year ended 31st March 2017

Particulars	Details (₹)	Amount (₹)
<b>A. Cash flow from Operating Activities</b>		
Net Profit Before Tax And Extra-ordinary Item	24,500	
Adjustment for non-cash and non-operating items	14,700	
Add : Depreciation on fixed assets		
Operating Profit before working capital changes	39,200	
Adjustment for Working Capital Changes:	2,300	
Add: Increase in Trade Payables	41,500	
Less: Increase in trade receivable	(1,500)	
Increase in Inventories	(2,000)	
Net Cash Inflow from Operating Activities	38,000	38,000
<b>B. Cash Flow from Investing Activities</b>		
Purchase of Fixed Assets	(51,000)	(51,000)
Net Cash Used in Investing Activities		
<b>C. Cash Flow from Financing Activities</b>		
Issue of share capital	20,000	
Payment of interim dividend	(7,000)	
Cash Flow from Financing Activities		13,000
Net Increase in Cash & Cash Equivalent		Nil
Add: Cash & Cash Equivalent at the beginning of year		3,000
Cash & Cash Equivalent at the end of year		3,000

**Fixed Assets Account**

Dr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/d	46,700		By Depreciation A/c	14,700
	To Bank A/c (additional purchase) (B.F)	51,000		(Current year dep. on remaining fixed assets)	
				By Balance c/d	83,000
		97,700			97,700

**Illustration 5: Prepare a cash Statement on the basis of the information given in the Balance Sheets of Liva Ltd. as at 31.3.2017 and 31.3.2016:**

Particulars	Note No.	31.3.2017 (₹)	31.3.2016 (₹)
I. Equity and Liabilities			
(1) Shareholders' funds			
(a) Share capital		2,10,000	1,80,000
(b) Reserves and surplus	1	1,32,000	24,000
(2) Non-current Liabilities			
(a) Long term-borrowings		1,50,000	1,50,000
(3) Current Liabilities			
(a) Trade Payables		75,000	27,000
Total		5,67,000	3,81,000
II. Assets			
(1) Non-current Assets			
(a) Fixed Assets			
(i) Tangible Assets		2,94,000	2,52,000
(b) Non-current Investments		48,000	18,000
(2) Current Assets			
(a) Current-Investments (Marketable)		54,000	60,000
(b) Inventories		1,07,000	24,000
(c) Trade Receivables		40,000	17,500
(d) Cash and Cash-equivalents		24,000	9,500
Total		5,67,000	3,81,000

Notes to Accounts:

Note-1

Particulars	2017 (₹)	2016 (₹)
Reserve and Surplus		
Surplus (Balance in statement of profit and loss)	1,32,000	24,000



Solution:

Cash Flow Statement of Liva Ltd.

For the year ended 31st March 2017 as per AS-3 (Revised)

Particulars	Details (₹)	Amounts (₹)
Cash Flows from Operating Activities:		
Net Profit before tax & extraordinary items	1,08,000	
Add : Non cash and Non-operating charges	–	
Operating profit before working capital changes	1,08,000	
Add : Increase in Current Liabilities		
Increase in trade payables	48,000	
Less : Increase in Current Assets:		
Increase in trade receivables	1,56,000	
Increase in inventories	(22,500)	
	(83,000)	
Cash generated from Operating Activities		50,500
Cash flow from Investing Activities:		
Purchase of fixed assets	(42,000)	
Purchase of noncurrent investments	(30,000)	
Cash used in investing activities.		(72,000)
Cash flows from Financing Activities:		
Issue of share capital	30,000	
Cash flow from financing activities		30,000
Net increase in cash & cash equivalents		8,500
Add: Opening balance of cash & cash equivalents:		
Marketable Securities	60,000	
Cash & cash Equivalents	9,500	
		69,500
Closing balance of cash & cash equivalents:		
Marketable Securities	54,000	
Cash & Cash equivalents	24,000	
		78,000

**Illustration 6:** From the following information, complete the Cash flow Statement of RK Ltd.

**Cash flow Statement  
For the year ended on 31-3-2017**

Particulars	₹	₹
A. Cash flow from operating Activities:		
Net profit before tax and Extraordinary items	.....	
Adjustment for Non-cash and non operating items:		
Depreciation	.....	
Loss on sale of Machinery	.....	
Operating profit before working capital changes	.....	
Adjustment for changes in working Capital:		
Capital:		
Decrease in Trade Payables	(8,000)	
Increase in Inventory	(.....)	
Cash generated from operations before tax & extraordinary items	50,000	
Less: Income tax paid	(.....)	
Net cash flow from operating activities:		.....
B Cash flow from Investing Activities:		
Purchase of Machinery	(.....)	
Sale of Machinery	.....	
Net cash flow from Investing Activities:		.....
C .Cash flow from Financing Activities:		
Proceeds from Issue of Shares	.....	
Net cash flow from Financing Activities:		.....
(A+B+C)net Increase in cash & Cash Equivalents during the year		.....
Add: Cash & cash equivalents at the beginning of the period		.....
Cash & cash equivalents at the end of the period		.....

**Notes to Account**

Particulars	31-3-2017 (₹)	31-3-2016 (₹)
Note 1. Reserve & Surplus		
General Reserve	55,000	40,000
Balance in Statement of Profit & Loss	70,000	50,000
	1,25,000	90,000
Note 2. Cash and Cash equivalents Cash at Bank	52,000	37,000
	52,000	37,000
Note 3. Short term Provisions	25,000	20,000
Provision for Taxation	25,000	20,000

**Additional Information:**

1. Depreciation charges on Building for the year 2016-17 was ₹ 10,000.
2. During the year 2016-17, machinery of ₹ 1,38,000 was purchased.
3. A part of machinery costing ₹ 20,000 with accumulated depreciation of ₹ 6,500 was sold for ₹ 8,500.
4. Income tax paid during the year 2016-17 was ₹ 18,000.

Solution:

**Cash flow Statement  
For the year ended on 31-3-2017**

Particulars	₹	₹
B. Cash flow from operating Activities:		
Net profit before tax and Extraordinary items	58,000	
Adjustment for Non-cash and non-operating items:		
Depreciation	10,000	
Loss on sale of Machinery	5,000	
Operating profit before working capital changes	73,000	
Adjustment for charges in working Capital:		
Decrease in Trade Payables	(8,000)	
Increase in Inventory	(15,000)	
Cash generated from operations before tax & extraordinary items	50,000	
Less: Income tax paid	(18,000)	
Net cash flow from operating activities:		32,000
B Cash flow from Investing Activities:		
Purchase of Machinery	(1,38,000)	
Sale of Machinery	8,500	
Net cash flow from Investing Activities		(1,29,500)
C .Cash flow from Financing Activities:		
Proceeds from Issue of Shares	1,12,500	
Net cash flow from Financing Activities		1,12,500
(A+B+C)net Increase in cash & Cash Equivalents during the year		15,000
Add: Cash & cash equivalents at the beginning of the period		37,000
Cash & cash equivalents at the end of the period		52,000

**Working Notes**

1. Calculation of Net Profit before tax and extraordinary items:

	₹
Difference in Balance in Statement of P&L (70,000-50,000)	20,000
Add: Transfer to General Reserve	15,000
Provision for Taxation	<u>23,000</u>
	<u>58,000</u>

2. Provision for Taxation Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Bank A/c (Tax paid)	18,000	By balance b/d	20,000
To Balance c/d	25,000	By Statement of P&L (Balancing Figure- Provision made during the year)	23,000
	43,000		43,000

Note:

- There is no need to prepare Machinery A/c as both purchase and sale values are given in the question.
- Proceeds from issue of share have been calculated by moving backwards from the figure of Net Increase in cash & cash Equivalents i.e.;

$$\text{i.e. } 15,000 = ₹ 32,000 + (129,500) + \text{Cash flow from financing activity}$$

**Illustration 7: Following is the Balance sheet of Thermal Power Ltd. as at 31-3-2016 and 31-3-2017.**

Particulars	31-03-2017 (₹)		31-03-2016 (₹)	
I. Equity and Liabilities				
(1) Shareholders' funds				
(a) Share capital		12,00,000		11,00,000
(b) Reserves and surplus (Statement of Profit & Loss)		300,000		2,00,000
(2) Non-current Liabilities				
(a) Long term-borrowings		240,000		1,70,000
(3) Current Liabilities				
(a) Trade Payables		1,79,000		2,04,000
(b) Short term provision		50,000		77,000
Total		19,69,000		17,51,000
II. Assets				
(1) Non-current Assets				
(a) Fixed Assets				
	31-03-2017	31-03-2016		
(Tangible): Machine	12,70,000	10,00,000	10,70,000	8,50,000
Less Depreciation Provision	(200,000)	(150,000)		
(Intangible): Goodwill			40,000	1,12,000
(2) Current Asset				
(a) Current-Investments			2,40,000	1,50,000
(b) Inventories			1,29,000	1,21,000
(c) Trade Receivables			1,70,000	1,43,000
(d) Cash and Cash-equivalents			3,20,000	3,75,000
Total			19,69,000	17,51,000

Additional Information:

During the year, a piece of machinery costing 24,000 on which accumulated depreciation was 16,000 was sold for 6,000. Prepare cash flow statement.

**(CBSE Modified)**

**Solution:**

**Cash flow statement**

S. No.	Particulars	Details (₹)	Amount (₹)
<b>A</b>	<b>Cash Flow from Operating Activities</b>		
	Net Profit before tax and extraordinary items: (1,00,000 Profit + 50,000 Provision for tax)		1,50,000
	Items to be Added		
	Goodwill (Written off)	72,000	
	Depreciation (during the year)	66,000	1,40,000
	Loss on sale of Tangible Assets	2,000	
	Operating Profit before working Capital Changes		2,90,000
	Less: increase in current assets, decrease in current liabilities		
	Decrease in Trade Payables	(25,000)	
	Increase in Inventories	(8,000)	
Increase in Trade Receivables	(27,000)		
		(60,000)	
		2,30,000	
Less: Tax Paid		(77,000)	
Net cash flow from operating activities		1,53,000	
<b>B</b>	<b>Cash Flow from Investing Activities:</b>		
	Purchase of Tangible Assets (Machine)	(2,94,000)	
	Sale of Tangible Assets (Machine)	6,000	(2,88,000)
<b>C</b>	<b>Cash Flow from Financing Activities:</b>		
	Issue of Share Capital	1,00,000	
	Issue of Long Term Loan	70,000	1,70,000
	Net Increase or Decrease in Cash & Cash Equivalents (A+B+C)		35,000
<b>D</b>	<b>Cash &amp; Cash Equivalents: Opening Balance</b>	3,75,000	
	Current Investment	1,50,000	5,25,000
<b>E</b>	<b>Cash &amp; Cash Equivalents: Closing balance</b>	3,20,000	
	Current Investment	2,40,000	5,60,000

**Note:**

1. Cash and Cash Equivalents includes cash and current investment (assuming their maturity to be less than 3 months)

2. Short term provision is assumed as provisions for tax.  
Working Notes:

Machinery A/c

Dr.	Amount (₹)	Cr.	Amount (₹)
Particulars	Amount (₹)	Particulars	Amount (₹)
To bal B/d	10,00,000	By Depreciation provision	16,000
To Bank A/c (Balancing Figure)	2,94,000	By Bank (Sale)	6,000
		By loss on sale of Machinery	2,000
		By bal c/d	12,70,000
	12,94,000		12,94,000

Provision for Depreciation A/c

Dr.	Amount (₹)	Cr.	Amount (₹)
Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	16,000	By balance b/d	1,50,000
To balance c/d	2,00,000	By Statement of Profit & loss (Depreciation)	66,000
	2,16,000		2,16,000

**Illustration 8:** Following was the Balance of vasudha Ltd. as on 31<sup>st</sup> March 2017:

Particulars	Note No.	31-3-2017 (₹)	31-3-2016 (₹)
<b>Equity &amp; Liabilities</b>			
<b>(1) Shareholders Funds</b>			
(a) Share Capital		20,00,000	15,00,000
(b) Reserves and Surplus	1	50,00,000	3,00,000
<b>(2) Non-current Liabilities</b>			
Long term borrowings		3,00,000	2,00,000
<b>(3) Current Liabilities</b>			
(a) Trade payables		1,50,000	2,00,000
(b) Short term provisions	2	70,000	60,000
<b>Total</b>		<b>30,20,000</b>	<b>22,60,000</b>

<b>Assets</b>			
(1) <u>Non-Current Assets</u>			
(a) Fixed Assets			
(i) Tangible assets	3	19,00,000	15,00,000
(ii) Intangible assets	4	4,70,000	2,70,000
(2) <u>Current Assets</u>			
(a) Inventories		2,50,000	1,60,000
(b) Trade Receivables		2,10,000	2,10,000
(c) Cash and Cash Equivalents		1,90,000	1,20,000
<b>Total</b>		<b>30,20,000</b>	<b>22,60,000</b>

**Notes to Accounts :**

S. No.	Particulars	As on 31-3-2017 (₹)	As on 31-3-2016 (₹)
1.	Reserve and Surplus Surplus (Balance in Statement of Profit and Loss)	5,00,000	3,00,000
2.	Short term provisions Provision for tax	70,000	60,000
3.	Tangible Assets Machinery Accumulated Depreciation	27,00,000 (8,00,000)	21,00,000 (6,00,000)
4.	Intangible Assets Goodwill	4,70,000	2,70,000

(Prepare a Cash Flow Statement after taking into account the following adjustment)

During the year a piece of machinery costing ₹30,000 on which accumulated depreciation was ₹ 6,000, was sold for ₹ 20,000.

**Cash Flow Statement of Vasuelha Ltd.**

**For the year ended 31<sup>st</sup> March, 2017 As per As-3 (Revised)**

Particulars	Details (₹)	Amt (₹)
<u>Cash Flows from Operating Activities:</u>		
Net Profit before tax & extraordinary items	2,00,000	
Add: Provision for Tax	70,000	
<u>Add: Non cash and non-operating charges</u>		
Depreciation on machinery	2,06,000	
Loss on sale of machinery	<u>4,000</u>	
Operating profit before working capital changes	4,80,000	
<u>Less: Increase in Current Assets</u>		
Increase in inventories	(90,000)	
<u>Less: Decrease in Current Liabilities</u>		
Decrease in trade payables	<u>(50,000)</u>	
Operating profit after working capital changes	3,40,000	
Less: Tax Paid	<u>(60,000)</u>	
Cash generated from Operating Activities		2,80,000
<u>Cash flows from Investing Activities :</u>		
Purchase of Machinery	(6,30,000)	
Sale of machinery	20,000)	
Purchase of Goodwill	<u>(2,00,000)</u>	
Cash used in investing activities		(8,10,000)
<u>Cash flows from Financing Activities :</u>		
Issue of share capital	5,00,000	
Money raised from long term borrowings	<u>1,00,000</u>	
Cash from financing activities		<u>6,00,000</u>
		70,000
Net increase in cash & cash equivalents:		
<u>Add: Opening balance of cash &amp; cash equivalents:</u>		1,20,000
Closing Balance of cash & cash equivalents:		<u>1,90,000</u>



### Machinery A/c

Dr.		Cr.	
Particulars	₹	Particulars	₹
Balance b/d	21,00,000	Bank A/c	20,000
Cash/Bank A/c	6,30,000	Accumulated Dep. A/c	6,000
		Statement of P/L	4,000
		Balance c/d	27,00,000
	27,30,000		27,30,000

### Accumulated Dep. A/c

Dr.		Cr.	
Particulars	₹	Particulars	₹
Machinery A/c	6,000	balance b/d	6,00,000
balance c/d	8,00,000	statement of P/L	2,06,000
	8,06,000		8,06,000

Illustration 9. From the following Balance Sheet of *B.C.R. Ltd.* as a 31st March, 2018, prepare Cash Flow Statement:

BALANCE SHEET OF *B.C.R. LTD.* as at 31 st March, 2018

Particulars	Note No.	31st March, 2018 (Rs.)	31 March 2017(Rs.)
<b>EQUITY AND LIABILITIES</b>			
1. Shareholders' Funds			
(a) Share Capital		7,00,000	5,00,000.
(b) Reserves and Surplus: Surplus, i.e., Balance in statement of Profit and Loss	1	3,50,000	2,00,000
2. Non-Current Liabilities			
Bank Loan		50,000	1,00,000
3. Current Liabilities			
(a) Trade Payables (Creditors)		52,000	55,000
(b) Short-term Provisions		50,000	30,000
<b>Total</b>		<b>12,02,000</b>	<b>8,85,000</b>

II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets:		5,00,000	5,00,000
(i) Tangible Assets: Equipment		95,000	1,00,000
(ii) Intangible Assets: Patents		1,00,000	
(b) Non-current Investments			
2. Current Assets			
(a) Inventories (Stock)		1,30,000	55,000
(b) Trade Receivables (Debtors)		1,47,000	80,000
(c) Cash and Cash Equivalents: Bank		2,30,000	1,50,000
<b>Total</b>		<b>12,02,000</b>	<b>8,85,000</b>

Note to Accounts

Particulars	31st March, 2018 (Rs.)	31st March 2017 (Rs.)
1. Short-term Provisions	50,000	30,000
Provision for Tax		

**Additional Information:**

- Proposed dividend, for the year ended 31st March, 2017, Rs. 70,000 was declared and paid in the year ended 31st March, 2018.
- During the year Equipment costing Rs. 1,00,000 was purchased. Loss on sale of Equipment amounted to Rs. 12,000. Rs. 18,000 depreciation was charged on Equipment.

**CASH FLOW STATEMENT**  
for the year ended 31st March, 2018

Particulars	Rs.	Rs.
<b>(a) Cash Flow from Operating Activities</b>		
Net Profit before Tax and Extraordinary Items (WN 1)	2,70,000	
Add: Non-cash and Non-operating Expenses:	18,000	
Depreciation on Equipment	5,000	
Patents amortised	12,000	
-Loss on sale of Equipment		
Operating Profit before Working Capital Changes	3,05,000	
Adjustment for Change in Current Assets and Current Liabilities:		
Trade Receivables (Debtors)	(67,000)	
Inventories (Stock)	(75,000)	
Trade Payables (Creditors)	(3,000)	
Cash Generated from Operations	1,60,000	
Less: Tax Paid	30,000	
Cash Flow from Operating Activities		1,30,000

<b>(b) Cash Flow from Investing Activities</b>		
Proceeds from Sale of Equipment (WN 2)	70,000	
Equipment Purchased	(1,00,000)	
Investment Purchased	(1,00,000)	
Cash Used in Investing Activities		(1,30,000)
<b>(c) Cash Flow from Financing Activities</b>		
Cash-Proceeds from Issue of Equity Shares	2,00,000	
Repayment of Bank Loan	(50,000)	
Dividend Paid	(70,000)	
Cash Flow from Financing Activities		80,000
Net Increase in Cash and Cash Equivalents (A + B - C)		80,000
Add: Opening Balance of Cash and Cash Equivalents		1,50,000
<b>(d) Closing Balance of Cash and Cash E</b>		<b>2,30,000</b>

**Working Notes:**

1. Calculation of Net Profit before Tax and Extraordinary Items:	Rs.
Balance as per Statement of Profit and Loss	1,50,000
Add: Provision for Tax (current year)	50,000
Dividend paid during 2017-18	70,000
Net Profit before Tax and Extraordinary Items	2,70,000
2. Calculation of amount of Sale of Equipment:	

**Equipment Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	5,00,000	By Depreciation A/c	18,000
To Bank A/c	1,00,000	By Bank A/c (Sale)—Balancing Figure	<b>70,000</b>
		By Loss on Sale of Equipment A/c (Statement of Profit and Loss)	2,000 5,00,000
		By Balance c/d	<b>6,00,000</b>
	<b>6,00,000</b>		

**Q.** From the following Balance Sheet of L.M.R. Ltd. as at 31st March, 2018, prepare Cash Flow Statement:

**BALANCE SHEET OF B.C.R. LTD. as at 31 st March, 2018**

Particulars	Note No.	31st March, 2018 (Rs.)	31st March 2017 (Rs.)
<b>EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		3,50,000	2,50,000
(b) Reserves and Surplus	1	1,75,000	1,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings; Bank Loan		25,000	50,000
<b>3. Current Liabilities</b>			

(a) Trade Payables (Creditors)		26,000	27,500
(b) Short-term Provisions	2	25,000	15,000
<b>Total</b>		<b>6,01,000</b>	<b>4,42,500</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
(i) Tangible Assets: Equipment		2,50,000	2,50,000
(ii) Intangible Assets: Patents		47,500	50,000
(iii) Non-current Investments		50,000	2,500
<b>2. Current Assets</b>			
(a) Inventories (Stock)		65,000	25,000
(b) Trade Receivables (Debtors)		60,000	40,000
(c) Cash and Cash Equivalents		1,28,500	75,000
<b>Total</b>		<b>6,01,000</b>	<b>4,42,500</b>

**Note to Accounts**

Particulars	31st March 2018 (Rs.)	31st March 2017 (Rs.)
<b>1. Reserves and Surplus</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	1,75,000	1,00,000
<b>2. Short-term Provision</b>		
Provision for Tax	25,000	15,000
<b>3. Cash and Cash Equivalents</b>		
Cash at Bank	1,15,000	75,000
Cash in Hand	13,500	-
	1,28,500	75,000

**Additional Information:**

- Proposed dividend for the year ended 31st March, 2017 was Rs. 35,000 and for ..... year ended 31st March, 2018, it was Rs. 70,000.
- During the year equipment costing Rs. 50,000 was purchased. Loss on Sale of Equipment amounted to Rs. 6,000, Rs. 9,000 depreciation was charged on equipment.

	<b>Rs.</b>
<b>Ans.</b> Cash Flow from Operating Activities	76,000
Cash Used in Investing Activities	62,500
Cash Flow from Financing Activities	40,000
Net Increase in Cash and Cash Equivalents	53,500