

PRACTICE QUESTION

Q.1 P Ltd. Earned a profit of ₹ 2,50,000 after charging the following items.

S.No.	Particulars	(₹)
1.	Depreciation on Fixed Tangible Assets (Machinery)	20,000
2.	Loss on Sale of Fixed Tangible Assets (Furniture)	2,000
3.	Writing off Goodwill	9,000
4.	Provision for Doubtful Debts	2500
5.	Provision for Taxation	35,000
6.	Transfer to General Reserve	15,000
7.	Gain on sale of Fixed Tangible Assets (Machinery)	8,000

The following information about assets and Liabilities is given

Particulars	31.3.2016	31.3.2017
	(₹)	(₹)
Trade Receivable (All Good)	50,000	62,000
Trade Payables	45,000	55,000
Inventory	12,000	8,000
Income Received in Advance	8,000
Outstanding Expenses	6,000	3,000
Prepaid Expenses	5,000

You are required to calculate Cash from operating activities.

Hints of Answer.

- (i) Net profit before Tax and Extraordinary items : ₹ 3,02,500
- (ii) Operating profit before working capital changes : ₹ 3,25,500
- (iii) Cash flow from operation Activities ₹ 2,76,500

POINTS TO REMEMBER

Q.1 When interest is received considered as financing activity?

Ans. Interest received on calls in Arrears is a financing activity.

Q.2 How is depreciation treated while computing cash flow from operating activity under indirect Method?

Ans. Added to Net Profit.

Q.3 Give an example of activity which remains financing activity for every enterprise?

Ans. Payment of Dividend, issue of shares for cash.

Q.4 Identify the following into:

(i) Operating Activities

(ii) Investing Activities

(iii) Financing Activities

(iv) Cash and cash equivalents

(a) Dividend received by finance company

(b) Dividend received by Non-finance company

Ans. (a) Operating Activity

(c) Investing Activity

Q.5 State any two items cash equivalent uses while preparing cash flow statement

Ans. Treasury Bills, Short term deposits.

Q.6 Shri Ltd. Was carrying on a business of packaging in Delhi and ear end good profit in the past years. The company wanted to expand its business and required additional funds. To meet its requirement, the company issued equity shares of ₹30,00,000. It purchases a computerized machine ₹10,00,000. It also purchased raw material amounting ₹2,00,000.

During current year the Net Profit of the company was ₹15,00,000. Find out cash from operating activities from the above transactions.

(CBSE Comptt. 2015)

Ans. ₹ 15,00,000

Q.7 Under which type of activity will you classify Commission and Royalty Received while preparing cash flow statement.

Ans. Operating Activity

Q.8 State whether cash deposited in bank will result in inflow, outflow or no flow of cash.

Ans. No flow as cash deposited in bank simply, represents movement between items of cash or cash equivalents.

Q.9 Under which type of activity will you classify sale of shares of another company while preparing cash flow statement.

Ans. Investing activity.

Q.10 State with reason whether discount received on making payment to suppliers would result into inflow. Out flow or not flow of cash.

Ans. No flow of cash

Reason : Discount received on payment to suppliers does not involve cash.

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Objective Questions

1. In cash flow statement, the item of interest is shown in

(A) Operating Activities

(B) Financing Activities

(C) Investing Activities

(a) Both A and B

(b) Both A and C

(c) Both B and C

(d) A, B, C

Answer : c) Both B and C

2. Cash Flow Statement is based upon

- (a) Cash basis of accounting
- (b) Accrual basis of accounting
- (c) Credit basis of accounting
- (d) None of the above

Answer : a) Cash basis of accounting

3. A financial statement that shows the inflows and outflows of cash during a particular period of time is known as:

- (a) Income statement
- (b) Statement of retained earning
- (c) Balance sheet
- (d) Statement of cash flows

Answer : d) Statement of cash flows

4. Which of the following is not an operating cash flow?

- (a) Collection of cash from receivables
- (b) Payment of income tax
- (c) Payment of cash for operating expenses
- (d) Purchase of equipment for cash

Answer : (d) purchase of equipment for cash

5. A company sells old plant for Rs. 12,000 cash. The book value of the plant is Rs. 7,000. This transaction would affect:

- (a) Operating activities & financing activities
- (b) Operating activities & investing activities
- (c) Financing activities & investing activities
- (d) Operating activities and foot notes

Answer : (b) operating activities & investing activities

6. Which of the following items affects net income but does not affect cash?

- (a) Depreciation of fixed assets
- (b) Amortization of intangible assets & bond discounts
- (c) Depletion of natural resources
- (d) All of the above

Answer : (d) All of the above

7. In the case of financial enterprises, the cash flow resulting from interest and dividend received and interest pain should be classified as cash flow from

- (a) Operating activities
- (b) Financing activities
- (c) Investing activities
- (d) None of the above

Answer : (a) Operating activities

8. Fill in the blanks in the following statement:

- (a) If the net profits earned during the year is Rs. 5,00,000 and the amount of debtors in the beginning and the end of the year is Rs. 1,00,000 and Rs. 2,00,000 respectively, then the cash from operating activities will be equal to Rs. _____
- (b) If the net profits made during the year are Rs. 5,00,000 and the bills receivable have decreased by Rs. 1,00,000 during the year then the cash flow from operating activities will be equal to Rs. _____
- (c) Expenses paid in advance at the end of the year are _____ the profit made during the year.
- (d) An increase in accrued income during the particular year is _____ the net profit.

- (e) Goodwill amortized is _____ the profit made during the year for calculating the cash flow from operating activities.
- (f) For calculating cash flow from operating activities, provision for doubtful debts is _____ the profit made during the year.
- (g) Cash & cash equivalents includes _____

Answer : (a) 4,00,000 (b) 6,00,000 (c) deducted from (d) deducted from (e) added to (f) added to (g) cash in hand, cash at bank and short term marketable securities

9. Match the column

- (A) Taxes paid _____ (i) Cash flow from investing activities
 - (B) Repayment of loans _____ (ii) Cash flow from operating activities
 - (C) Sale of fixed assets _____ (iii) Cash flow from financing activities
- (a) A (ii), B (iii) C (i)
 - (b) A (i) B (ii) C (iii)
 - (c) A (iii) B (i) C (ii)

Answer : (a) A (ii), B (iii) C (i)

10. For the calculation of cash flow from operating activities, payments and receipts shown in Profit & Loss account are converted into payments and receipts actually in cash.

- (a) True
- (b) False

Answer : True