



UNIT-IV Cash Flow Statement-4

- **Cash Flow Statement** It is a statement that shows flow of cash and cash equivalents during the period under report. The statement net increase or decrease of cash and cash equivalents under each activity separately- operating, investing and financing as well as collectively.
- **Objectives of CFS:**
 - To ascertain the sources (receipts) of cash and cash equivalents under operating, investing and financing activities by the enterprise.
 - To ascertain applications (payments) of cash and cash equivalents under operating, investing and financing activities by the enterprise.
 - To ascertain net change in cash and cash equivalents being the difference between sources and applications under the three between the dates of two balance sheets.
- **Steps in the preparation of CFS:**
 - I. Ascertain cash flows from operating activities
 - II. Ascertain cash flows from investing activities
 - III. Ascertain cash flows from financing activities
 - IV. Steps I, II AND III are added and the resultant figure is net increase or decrease in cash and cash equivalents.
 - V. Cash and cash equivalents of the beginning is added to the cash flow arrived under step IV.
 - VI. In the last we get cash and cash equivalents at the end
- **CASH AND CASH EQUIVALENTS:** It includes cash, bank balance, marketable securities etc
 1. Why is Cash Flow Statement prepared?
 2. Give the classification of the Cash Flow for preparing Cash Flow Statement.
 3. Give any two items of cash equivalent used while preparing Cash Flow Statement.
 4. How are non-cash items dealt in Cash Flow Statement?
 5. Give an example of non-cash transaction.
 6. Dividend received by a Finance Company will come under which activity while preparing Cash Flow Statement.
- ✓ Identify the following transactions belonging to
 - (i) *Operating Activities*, (ii) *Investing Activities*,
 - (iii) *Financing Activities*, and (iv) *Cash and Cash Equivalents*:
 1. Cash Sales
 2. Cash Purchase
 3. Rent paid
 11. Cash paid to Creditors
 12. Purchase of Machines
 13. Income Tax refund received



ACCOUNTANCY

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|------------------------|--|
| 4. Cash-in-hand | 14. Issue of Share Capital |
| 5. Income Tax paid | 15. Sale of Patents |
| 6. Office Expenses | 16. Manufacturing Expenses |
| 7. Balance at Bank | 17. Purchase of Goodwill |
| 8. Sale of Machines | 18. Short-term Deposits in Banks |
| 9. Issue of Debentures | 19. Purchase of investments(non-current) |
| 10. Dividend paid | 20. Cash received from Debtors |

**Sol: Operating Activities: 1,2,3,5,6,11,13,16 and 20; Investing Activities: 8,12,15,17 and 19;
Financing Activities: 9,10 and 14; Cash and Cash Equivalents: 4,7 and 18;**

Calculate Cash Flow from Operating Activities from the following details:

Particulars	31 st March, 2014 (Rs.)	31 st march, 2013(Rs.)
Surplus, i.e., balance in statement of P/L	3,00,000	2,00,000
Bills Receivable	1,80,000	1,40,000
Depreciation	3,20,000	3,00,000
Outstanding Rent	40,000	16,000
Prepared Insurance	12,000	14,000
Goodwill	1,60,000	2,00,000
Inventories (stock)	1,80,000	1,40,000

(Cash Flow from Operating Activities is Rs. 1,06,000.)

8. Calculate Cash Flow from Operating Activities from the following:

- a. Profit for the year is Rs. 2,50,000 after considering the following items:

Particulars	Rs.
a) Depreciation on Fixed Assets	10,000
b) Amortization of Goodwill	5,000
c) Transfer to general Reserve	7,000
d) Profit on Sale Land	3,000

- b. Following is the position of current assets and current liabilities:

Particulars	Closing Balance (Rs.)	Opening Balance (Rs.)
Trade Receivables	23,000	22,000
Trade Payables	10,000	15,000
Prepaid Expenses	4,000	6,000

(Cash Flow from Operating Activities is Rs. 2, 65,000.)

Note: Net Profit before Tax = Profit for the year + Transfer to General Reserve = Rs. 2, 50,000 + Rs. 7,000. = Rs. 2, 57,000



9. From the following information, calculate Cash Flow from Investing Activities:

Particulars (Rs.)	Closing Balance (Rs.)	Opening Balance
Machinery (at cost)	4,20,000	4,00,000
Accumulated depreciation	1,10,000	1,00,000
Patents	1,60,000	2,80,000

Additional Information:

During the year, a machine costing Rs. 40,000 with its accumulated depreciation of Rs. 24,000 was sold for Rs. 20,000. Patents were written off to the extent of Rs. 40,000 and some patents were sold at a profit of Rs. 20,000. (Cash Flow from Investing Activities is Rs. 60,000.)

10. From the following information, calculate Cash Flow from Financing Activities:

Particulars 2014 (Rs.)	31st March, 2013 (Rs.)	31st March,
Equity share capital	5,00,000	4,00,000
10% Debentures	1,00,000	1,50,000
Securities Premium Reserve	50,000	40,000

Additional Information: Interest Paid on debentures Rs. 10,000.

(Cash Flow from Financing Activities is Rs. 50,000.)

11. From the following information, prepare CFS for the year ended 31st March, 2014:

Particulars	Rs.
Opening Cash Balance	10,000
Closing Cash Balance	12,000
Decrease in Trade Receivables	5,000
Increase in Trade payables	7,000
Sales on Fixed Assets	20,000
Redemption of Debenture	50,000
Net Profit for the Year	20,000

[CFFOA – Rs. 32,000; CFFIA – Rs. 20,000; and CUIFA – Rs. [50,000]]

10. Following are the Balance Sheets of X Ltd. prepares Cash Flow Statement.

Particulars	Note No.	31 st March, 2014 (Rs.)	31 st march, 2013 (Rs.)
EQUITY AND LIABILITIES			
Shareholder's Funds			
Share Capital		25,00,000	20,00,000
Reserve and Surplus		2,30,000	1,00,000
Current liabilities			
Trade payables		4,50,000	7,00,000
Total		31,80,000	28,00,000



ACCOUNTANCY

ASSETS			
Non- current Assets			
Fixed Assets-tangible Assets(land)		6,60,000	50,00,00
Current Assets			
Inventories		9,00,000	8,00,000
Trade Receivable		11,50,000	12,00,000
Cash and cash Equivalent		4,70,000	3,00,000
Total		31,80,000	28,00,000

Notes to Accounts

Particulars	31 st March, 2014 (Rs.)	31 st march, 2013(Rs.)
Reserves and surplus	2,30,000	1,00,000
Surplus, i.e., Balance in Statement of P/L		

[CUIOA – Rs. (1,70,000); CUIIA – Rs. (1,60,000); and CFFFA – Rs. 5,00,000

Q.23. From the given notes to accounts and Cash Flow Statement of Red Hot Dog Ltd Complete the Missing Figure: 6

NOTES TO ACCOUNTS:

Particulars	31.03.2015	31.03.2014
Note No.1: Reserve and Surplus		
General Reserve	3,00,000	2,70,000
Balance in statement of Profit & Loss	25,000	(20,000)
	3,25,000	2,50,000
Note No. 2: Cash and Cash Equivalent		
Cash at Bank	20,000	40,000

Additional information:

1. Depreciation charged on plant & Machinery for the year 2014-15 was Rs.1,75,000. During the year 2014-2015, plant and Machinery of Rs.7,25,000 was purchased.
2. Interest on Mortgage loan paid during the Year amounted to Rs.35,000.
3. Dividend paid during the year Rs.44,000.



**CASH FLOW STATEMENT
For the year ended 31.03.2015**

Particulars	31.03.2015	31.03.2014
A. Cash flow from Operating Activities		
Net profit before tax		
Adjustments for :	.....
Depreciation on plant and Machinery	.....
Interest on mortgage Loan	.....	.....
Operating profit before working capital changes	.....
Add: decrease in current assets:		
Inventory	1,20,000	
Add: Increase in Current Liabilities:		
Trade Payables	.....	3,95,000
Less: Increase in Current Assets:		
Trade Receivables	.....	.....
Net cash from operating Activities	.....	.....
B. Cash Flow from investing Activities:		
Purchases of Plant and Machinery	(.....)	
Net cash used in Investing Activities	(.....)	(.....)
C. Cash Flow from Financing Activities:		
Proceeds from issue of shares		
Proceeds from Mortgage Loan		
Payment of Interest on Mortgage Loan	.....
Payment of Dividend	1,50,000	
Net Cash from Financing Activities	(.....)	
Net Decrease in cash and Cash Equivalents	(.....)	
Add: Opening Balance of Cash and Cash Equivalents	.....	.....
Closing Balance of Cash and cash Equivalents		(.....)