Lesson 9 Cash Flow Statement

Key Concepts One Should Know

- Cash equivalents
- Cash flow
- Fund flow
- Sources of cash
- Operating activities
- Investing activities
- Financing activities

Learning Objectives

To understand the:

- Meaning of cash flow statement
- Difference between funds flow statement and cash flow statement
- Concept of funds in cash flow analysis
- Utility and limitations of cash flow analysis
- Effect of Accounting Standard (AS-3) on cash flow statement
- Operating activities, investing activities and financing activities
- Transactions effecting inflow and outflow of cash
- Method of preparation of cash flow statement;
- Objectives and uses of cash flow statement

Lesson Outline

- Introduction to Cash Flow Statement
- Types of Cash Flows in Cash Flow Statement
- Adjustments in Cash Flow Statement
- Preparation of Cash Flow Statement
- Different Methods applied in Cash Flow Statement
- Utility & Limitations of Cash Flow Statement
- Funds Flow Statement Vs Cash Flow Statement
- LESSON ROUND UP
- TEST YOURSELF

INTRODUCTION TO CASH FLOW STATEMENT

> A statement of cash flow reports cash receipts and payments classified according to the entities' major activities - operating, investing and financing during the period.

When it is desired to explain to management the sources of cash and its uses during a particular period of time, a statement known as cash flow statement is prepared. A statement of cash flows reports the inflows (receipts) and outflows (payments) of cash and its equivalents of an organisation during a particular period. It provides important information that compliments Statement of Profit & Loss and balance sheet. This statement reports a net cash inflow or net cash outflow for each activity and for the overall business. It also reports from where cash has come and how it has been spent. It explains the causes for the changes in the cash balance. In substance, the cash flow statement summarises a myriad of specific cash transactions into a few categories for a business entity. The statement of cash flows reports the cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities of an enterprise during a period in a format that reconciles the beginning and ending cash balances.

The cash flow statement should be prepared in line with the stipulations given in AS-3.

Applicability of AS-3 Cash Flow Statements

The applicability of Cash flow statement has been defined under the Companies Act, 2013. As per the definition in the act, a financial statement includes the following:

i. Balance sheet

ii. Profit and loss account / Income and expenditure account

iii. Cash flow statement

iv. Statement of changes in equity

v. Explanatory notes

> **As per AS 3:**
>
> **For Companies -** As per the Companies Act, 2013, Cash Flow Statement is required to be prepared by every company except a one person, small and dormant company.
>
> For non-companies **-** AS 3 is not mandatory for entities falling in Level IIand Level III.

Meaning of certain terms used in the context of cash Flow Statement

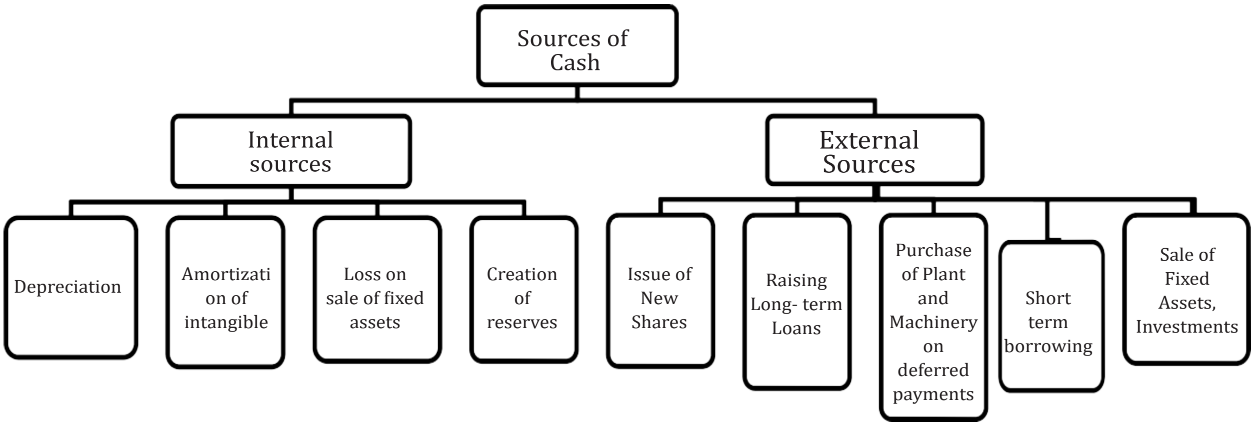
Cash: Cash comprises cash in hand and demand deposits with banks. Demand deposits mean those deposits which are repayable by bank on demand by the depositor.

Cash equivalents: Cash equivalents are 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. Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investments or other purposes. Examples of cash equivalents are treasury bills, commercial paper etc. Investments in shares are excluded from cash equivalents unless they are in substance cash equivalents, for example preference shares of a company acquired shortly before their specified redemption date (provided there is only an insignificant risk of failure of the company to repay the amount at maturity).

Cash flows: Cash flows are inflows and outflows of cash and cash equivalents. It means the movement of cash into the organisation and movement of cash out of the organisation. The difference between the cash inflows and outflows is known as net cash flow which can be either net cash inflow or net cash outflow. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing and financing activities.

Cash management includes the investment of excess cash in cash equivalents.

Sources of Cash



Internal Sources

Cash from operations is the main internal source. The net profit shown by the Profit and Loss Account will have to be adjusted for non-cash items for finding out cash from operations. Some of these items are as follows:

i. **Depreciation:** Depreciation does not result in an outflow of cash. Therefore net profit will have to be increased by finding out the amount of depreciation or development rebate charged, in order to find out the real cash generated from operations.

ii. **Amortization of intangible assets:** Goodwill, preliminary expenses, etc. when written off against profits, reduce the net profits without affecting the cash balance. The amounts written off should, therefore, be added back to profits to find out the generation of each from operations.

iii. **Loss on sale of fixed assets:** It does not result in an outflow of cash, therefore should be added back to profits.

iv. **Gain from sale of fixed assets:** Since sale of fixed assets is taken as a separate source of cash, it should be deducted from the net profits.

v. **Creation of reserves:** If profit for the year has been arrived at after charging transfers to reserves. Such transfers should be added back to profits. The cash operations show a net loss, such net loss after making adjustments for non-cash items can be shown as an application of cash.

External Sources

The external sources of cash are:

vi. **Issue of New Shares:** In case shares have been issued for cash, the net cash received (i.e., after deducting expenses on the issue of shares or discount on the issue of shares) will be taken as a source of cash.

vii. **Raising Long-term Loans:** Long-term loans, such as issue of debentures, loans from Industrial Finance Corporations, State Financial Corporation and IDBI are sources of cash. They should be shown separately.

viii. **Purchase of Plant and Machinery on deferred payments:** In case plant and machinery have been purchased on a deferred payment system, it should be shown as a separate source of cash.

ix. **Short-term Borrowings-cash credit from banks:** Short-term borrowings, etc., from bans increase available cash but they have to be shown separately under the above head.

x. **Sale of Fixed Assets, Investments, etc.:** It results in the generation of cash and therefore, is a source of cash.

Decrease in various current assets and increase in various current liabilities (as discussed further) may be taken as external sources of cash, if they are not adjusted while computing cash from operations.

CLASSIFICATION OF CASH FLOWS STATEMENT

The cash flow statement during a period is classified into three main categories of cash inflows and cash outflows i.e. operating, investing and financing activities.

(i) Cash Flows from Operating Activities

Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing and financing activities. Operating activities include cash effects of those transactions and events that enter into the determination of net profit or loss.

A business's normal operations result in both cash receipts and cash payments. Cash receipts result from selling goods and providing services. The cost of goods sold and other operative expenses result in cash disbursements. The revenues and expenses reported in the income statement, however, do not coincide with the cash receipts and payments as we prepare the income statement on an accrual basis. The receipts and payments of cash for these revenues and expenses may occur in either an earlier or later period than the period we report the revenues and expenses.

Following are the examples of cash flows arising from financing activities:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash receipts from royalties, fees, commissions, and other revenues;

(c) cash payments to suppliers for goods and services;

(d) cash payments to and on behalf of employees;

(e) cash receipts and payments of an insurance enterprise for premiums and claims, annuities and other policy benefits;

(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and

(g) cash receipts and payments relating to future contracts, forward contracts, option contracts, and swap contracts when the contracts are held for dealing or trading purposes.

(ii) Cash Flows from Investing Activities

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents. In other words, investing activities include transactions and events that involve the purchase and sale of long-term productive assets (e.g. land, building, plant and machinery etc.) not held for resale and other investments.

The following are examples of cash flows arising from investing activities:

(a) cash payments to acquire fixed assets (including intangibles). These payments include those relating to capitalised research and development costs and self-constructed fixed assets;

(b) cash receipts from disposal of fixed assets (including intangibles);

(c) cash payments to acquire shares, warrants, or debt instruments of other enterprises and interests in joint ventures (other than payments for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(d) cash receipts from disposal of shares, warrants, or debt instruments of other enterprises and interests in joint ventures (other than receipts from those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) cash advances and loans made to third parties (other than advances and loans made by a financial enterprise);

(f) cash receipts from the repayment of advances and loans made to third parties (other than advances and loans of a financial enterprise);

(g) cash receipts and payments relating to future contracts, forward contracts, option contracts, and swap contracts except when the contracts are held for dealing or trading purposes, or the transactions are classified as financing activities.

(iii) Cash Flows from Financing Activities

Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

Following are the examples of cash flows arising from financing activities:

(a) cash proceeds from issuing shares or other similar instruments;

(b) cash proceeds from issuing debentures, loans notes, bonds and other short term borrowing.

(c) cash repayments of amounts borrowed i.e. redemption of debentures, bonds etc.

(d) cash payments to redeem preference shares.

(e) payment of dividend.

Operating activities	Investing activities	Financing activities
Principal revenue producing activities and other activities that are not investing or financing activities	Acquisition and disposal of long-term assets and other investments not included in cash equivalents	Activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company)and borrowings

SPECIAL ITEMS

In addition to the general classification of three types of cash flows, Accounting Standard-3 provides for the treatment of the cash flows of certain special items as under:

(a) Foreign Currency Cash Flows

Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and foreign currency at the date of cash flow. A rate that approximates actual rate may be used if the result is substantially the same as would arise if the rates at the date of cash flows were used. Unrealised gains and losses arising from changes in foreign exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at the end of period exchange rates.

Reporting of foreign currency cash flows	
Cash flows arising from transactions in a foreign currency	Effects of changes in exchange rates on cash and cash equivalents held in a foreign currency
To be recorded in the reporting currency of the enterprise using the exchange rate on the date of cash flow	To be reported as a separate part of the reconciliation of the changes in cash and cash equivalents during the Period

(b) Extraordinary Items

The cash flows associated with extra-ordinary items such as bad debts recovered, claims from insurance companies, winning of a law suit or lottery etc. are disclosed separately as arising from operating, investing or financing activities as the case may be, in the cash flow statement.

(c) Interest and Dividends

According to Accounting Standard-3 (Revised), the treatment of interest and dividends, received and paid, depends upon the nature of the enterprise, that is, financial enterprises and other enterprises.

(i) In the case of financial enterprises: Cash flows arising from interest paid and interest and dividends received, should be classified as cash flows from operating activities.

(ii) In the case of other enterprises:

- cash flows arising from interest paid should be classified as cash flows from financing activities.
- cash flows arising from interest and dividends received should be classified as cash flows from investing activities;
- dividends paid should be classified as cash flows from financing activities.

Non-Financial Enterprises			
Interest paid	Interest received	Dividend Paid	Dividend received
Financing Activities	Investing Activities	Financing Activities	Investing Activities
Financial Enterprises			
Interest paid	Interest received	Dividend Paid	Dividend received
Operating Activities	Operating Activities	Financing Activities	Operating Activities

In all cases, cash flows from interest and dividends received and paid should be disclosed separately. Also the total amount of interest paid during the period is disclosed in the cash flow statement whether it has been recognised as an expense in the Statement of Profit & Loss or capitalised in accordance with AS-10, Accounting for Fixed Assets.

(d) 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. Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transactions. Therefore taxes paid are usually treated as cash flows from operating activities. However, in case it is possible to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, it is appropriate to classify the tax cash flow as an investing or financing activity.

(e) Acquisition and Disposals of Subsidiaries and other Business Units

The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities.

(f) Non-cash Transactions

Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. 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. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these do not involve cash flows in the current period. Following are examples of noncash transactions:

(i) the acquisition of assets by assuming directly related liabilities.

(ii) the acquisition of an enterprise by means of issue of shares.

(iii) conversion of debt into equity.

PREPARATION OF A CASH FLOW STATEMENT

The following basic informations is required for the preparation of a cash flow statement:

(i) **Comparative Balance Sheets:** Balance sheets at the beginning and at the end of the accounting period indicate the amount of changes that have taken place in assets, liabilities and capital.

(ii) **Statement of Profit & Loss:** The Statement of Profit & Loss of the current period enables to determine the amount of cash provided by or used in operations during the accounting period after making adjustments for non-cash, current assets and current liabilities.

(iii) **Additional data:** In additions to the above statements additional data are collected to determine how cash has been provided or used e.g. sale or purchase of assets for cash.

The following procedure may be used for the preparation of a cash flow statement:

(a) **Calculation of net increase (decrease) in cash and cash equivalents accounts**.

The difference between cash and cash equivalents for the period may be computed by comparing these accounts given in the comparative balance sheets. The results will be cash receipts and payments during the period responsible for the increase or decrease in cash and cash equivalent items.

(b) **Calculation of the net cash provided (used) by operating activities**.

It is by the analysis of Statement of Profit & Loss, comparative balance sheet and selected additional information.

(c) **Calculation of the net cash provided (used) by investing and financing activities**.

All other changes in the balance sheet item must be analysed taking into account the additional information and effect on cash may be grouped under the investing and financing activities.

(d) **Preparation of a cash flow statement.**

It may be prepared by classifying all cash inflows and outflows in terms of operating, investing and financing activities. The net cash flow provided by (used) in each of the three activities may be highlighted.

(e) Ensure that the aggregate of net cash flows from operating, investing and financing activities is equal to net increase (decrease) in cash and cash equivalents.

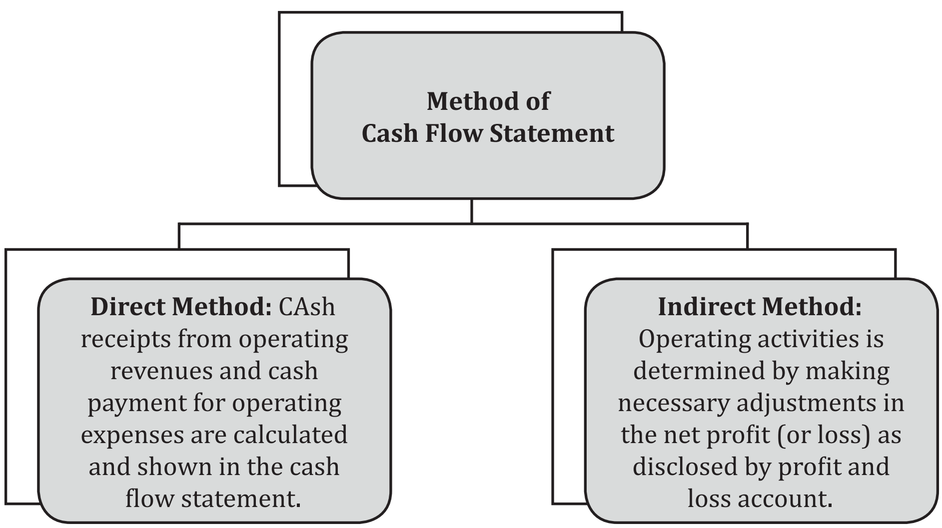
(f) Report any significant investing/financing transactions that did not involve cash or cash equivalents in a separate schedule to the cash flow statement.

REPORTING OF CASH FLOWS FROM OPERATING ACTIVITIES

Net profit/loss as reported in the Statement of Profit & Loss is different from the net cash flow from operating activities as the financial statements are generally prepared on accrual basis of accounting under which the net income will not indicate the net cash provided by or net loss will not indicate the net cash used in operating activities. In order to calculate the net cash flows in operating activities, it is necessary to replace revenues and expenses with actual receipts and payments in cash. This is done by eliminating the non-cash revenues and/ non-cash expenses from given earned revenues and incurred expenses. There are two methods of converting net profit into net cash flows from operating activities:

(i) Direct method, and

(ii) Indirect method.



1. Direct Method

Under direct method, cash receipts from operating revenues and cash payments for operating expenses are arranged and presented in the cash flow statement. The difference between cash receipts and cash payments is the net cash flow from operating activities. It is in effect a cash basis Statement of Profit & Loss. In this case each cash transaction is analysed separately and the total cash receipts and payments for the period is determined. The summarised data for revenue and expenses can be obtained from the financial statements and additional information. We may convert accrual basis of revenue and expenses to equivalent cash receipts and payments. Make sure that a uniform procedure is adopted for converting accrual base items to cash base items.

The following are some examples of usual cash receipts and cash payments resulting from operating activities:

(i) Cash sales of goods and services;

(i) Cash collected from debtors (customers);

(ii) Cash receipts of interest or dividends;

(iii) Cash receipts of royalties, fees, commission and other revenues;

(iv) Cash payments to suppliers (creditors);

(v) Cash payments for various operating expenses i.e. rent, rates, power etc.

(vi) Cash payments for wages and salaries to employees;

(vii) Cash payments for income tax etc.

Under direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales and other items in the statement of profit and loss for:

- Changes during the period in inventories and operating receivables and payables;
- Other non-cash items, and
- Other items for which the cash effects are investing or financing cash flows.

Some of the items to be shown in the cash flow statement are illustrated below:

Collections from Customers: If a business has only cash sales, the amount of sales revenue in the income statement is the amount of cash collected from the customers. However, when the business has credit sales we have to adjust the amount of sales revenue for changes in debtors and bills receivable. The opening balance of debtors or bills receivable represents uncollected amount from a previous period and it is presumed that cash has been collected during the current accounting period. The closing balance of debtors or bills receivable represents uncollected amount in the current accounting period. Therefore in order to calculate the cash received from debtors, the opening balance (debtors/bills receivable) should be added to the amount of credit sales and closing balance should be subtracted therefrom.

Alternatively, Cash Collected from Debtors can also be calculated as given below:

Cash Collected from Debtors = Credit Sales + Decrease in Accounts Receivable or - Increase in Accounts Receivable.

Payment to Suppliers: The analysis of cash payments to suppliers begins with cost of goods sold from the Statement of Profit & Loss. The amount of purchases is calculated by adding closing stock and subtracting opening stock form the cost of goods sold. The cash payment made to suppliers is calculated by making adjustments for change in sundry creditors/bills payable.

Purchases = Cost of Goods Sold + Closing Stock - Opening Stock OR Purchases = Cost of Goods Sold + Increase in Stock or - Decrease in Stock

Cash Paid to Suppliers = Purchases + Opening Balance of Creditors (Bills Payable) - Closing Balance of Creditors (Bills Payable).

OR

Cash Paid to Suppliers = Purchases + Decrease in Accounts Payable or - Increase in Accounts Payable.

Payment to Employees:

Cash Paid for Wages and Salaries = Wages and Salaries Expenses + Opening Balance of Outstanding Wages and Salaries - Closing Balance of Outstanding Wages and Salaries.

OR

Cash Paid for Wages and Salaries = Wages and Salaries Expenses + Decrease in Wages and Salaries Payable or - Increase in Wages and Salaries Payable.

Rent Received: The analysis of rent received is similar to cash collected from customers.

Rent Received = Rent Revenue + Opening Balance of Rent Receivable - Closing Balance of Rent Receivable.

OR

Rent Received = Rent Revenue + Decrease in Rent Receivable or - Increase in Rent Receivable.

Interest Paid: The analysis of interest paid is similar to the analysis of payments to employees.

Interest Paid = Interest Expenses + Opening Balance of Outstanding Interest - Closing Balance of Outstanding Interest.

OR

Interest Paid = Interest Expenses + Decrease in Interest Payable, or - Increase in Interest Payable.

A similar treatment is applied for various other income and expenses to find out the cash inflows or outflows.

Insurance: Different procedure is adopted for insurance expense because insurance is usually purchased (and recorded as an asset) before it becomes an expense. The treatment is as follows:

Cash Paid for Insurance = Insurance Expenses + Closing Balance of Unexpired Insurance - Opening Balance of Unexpired Insurance.

OR

Cash Paid for Insurance = Insurance Expenses + Increase in Unexpired Insurance or - Decrease in Unexpired Insurance.

A similar treatment is applied for other prepaid expenses also.

In direct method of calculating cash flow from operations, the following points should be noted:

(i) The necessary adjustments should be made for bad debts, sales returns, purchases returns, discount allowed, discount received etc. while calculating the amount received from the customers or paid to suppliers, as the case may be.

(ii) Items like depreciation, amortisation of intangible assets (such as goodwill, patent, trade mark etc.) or of debenture discount, preliminary expenses, premium on redemption of debentures and preference shares are ignored from the cash flow statement since the method analyses and includes only cash transactions and therefore, non-cash items are omitted from a statement of cash flows.

(iii) No adjustment is made for loss or gain on the sale of fixed assets and investments since operating cash receipts and payments are reported directly on the cash flow statement.

2. Indirect Method

In this method the net profit (loss) is used as the base to calculate net cash provided by or used in operating activities. Non-cash and non-operating charges in the Statement of Profit & Loss are added back to the net profit while non-cash and non-operating credits are deducted to calculate operating profit before working capital changes. It is a partial conversion of accrual basis profit to cash basis profit. Then necessary adjustments are made for increase/decrease in current assets and current liabilities to obtain net cash from operating activities.

A summary of adjustments required to convert the net profit to net cash flow from operating activities through indirect method is as follows:

A. Net profit before tax and extraordinary item

B. Adjustments for non-cash and non-operating items:

Add: Amount written off in respect of depreciation, goodwill, preliminary expenses, underwriting commission etc.

Add/Less: Other non-operating items

C. Adjustment for gains and losses on sale of fixed assets and investments:

Add: Loss on sale of fixed assets/investments Less: Profit on sale of fixed assets/investments

D. Adjustments for changes in current assets (except cash and cash equivalents) and current liabilities (except bank overdraft)

Add: Decrease in accounts of current assets e.g. debtors, bill receivable, stock, prepaid expenses etc.

Less: Increase in accounts of current assets.

Add: Increase in accounts of current liabilities; e.g., creditors, bills payable, outstanding expenses, etc.

Less: Decrease in accounts of current liabilities.

E. Cash generated from operations

Less: Income tax paid.

F. Adjustments for extra-ordinary items if any

G. Net cash from (used in) operating activities

The computation of net cash inflow or cash outflow from operating activities by the indirect method takes a path that is very different from the computation by the direct method. However, the two methods arrive at the same amount of net cash flow from operations.

The logic behind the treatment of various items are explained as follows:

Adjustment for Depreciation and other Non-cash and Non-operating items

Depreciation, depletion and amortisation of expenses (amortisation of goodwill, preliminary expenses, premium on redemption of debentures, underwriting commission, etc.) do not affect cash and thus should be added back to the net profit in the cash flow statement. When depreciation is provided it has no effect on cash. However, depreciation is deducted from revenues for the computation of income. Therefore, in going from net profit to cash flow from operations, we add depreciation back to net profit. Likewise, all expenses with no cash effects are added back to net profit in the cash flow statement. In the same manner, revenues that do not provide cash are substracted from net profit.

Adjustment for Gains and Losses on Sale of Fixed Assets/Investments

When fixed assets or investments are sold, there may be either profit or loss on sale. Such profit or loss affects the amount of net profit. For instance, when fixed assets, with a book value of ₹ 75,000 was sold for ₹ 90,000 the actual inflow of cash is ₹ 90,000 which would be reflected in the cash flow statement including a profit of ₹ 15,000. But this profit on sale of fixed asset has already increased the net profit indicating an inflow of cash from operating activities. In order to avoid this duplication, this profit of ₹ 15,000 must be deducted from the net profit. Moreover sale of fixed assets is an investing activity and therefore effect of this profit on sale must be removed from cash flow from operations. Likewise, a loss on sale of fixed assets or investment also require an adjustment to the net profit in the cash flow from operations. This loss is added back to the net profit to compute cash flow from operations.

Changes in Current Assets and Liabilities

Most current assets and current liabilities result from operating activities. Sundry debtors and bills receivable result from sales, inventory generates revenues and prepaid expenses are used in operations. On the liabilities side sundry creditors and bills payable are ordinarily incurred to buy inventory and outstanding liabilities relate to salaries, utilities and other expenses. Changes in these current assets and liabilities are reported as adjustments to net profit on the cash flows statement. The following rules apply:

(a) An increase in current assets other than cash is deducted from net profit to calculate cash flow from operations: For example, when sundry debtors (net) increase during the year, this means that revenues on accrual basis are higher than revenues on cash basis since goods sold on credit are treated as revenues on accrual basis. In other words, the business operations in the period covered resulted in more revenues but not all these revenues resulted in corresponding increase in cash. Some of the revenues resulted in an increase in debtors only. In order to convert the net profit to net cash provided by operating activities the increase in debtors must be deducted from the reported net profit. However, a decrease in current assets has opposite effect and has to be added back to net profit to determine cash provided for the period.

(b) An increase in current liability is added to net profit to arrive at the cash from operation. For example when, sundry creditors increase during the period covered, it means that expenses on accrual basis are more than they are on cash basis because expenses are incurred for which no payment has been made. So this increase must be added to net profit. H owever, a decrease in a current liability is subtracted from net profit since more cash has been paid than the expenses recorded on accrual basis.

FORMAT OF CASH FLOW STATEMENT

Accounting Standard-3 (Revised) has not provided any specific format for the preparation of cash flow statements, but a general idea can be had from the illustration appearing thereof. There seems to be flexibility in the presentation of cash flow statements. However, a widely accepted format under direct method and indirect method is given below:

Cash Flow Statement (Direct Method)

A. Cash flows from operating activities

Cash receipts from customers

Cash paid to suppliers and employees

Cash generated from operations

Income taxes paid

Cash flow before extraordinary item

Proceeds from earthquake disaster settlement

Net Cash from Operating Activities

B. Cash flows from investing activities

Purchase of fixed assets

Proceeds from sale of equipment

Interest received

Dividend received

Net Cash from Investing Activities

C. Cash flows from financing activities

Proceeds from issuance of share capital

Proceeds from long-term borrowings

Repayments of long-term borrowings

Interest paid

Dividend paid

Net Cash from Financing Activities

Net Increase (Decrease) in Cash and Cash Equivalents (A + B + C)

Cash and Cash Equivalents at Beginning of Period

Cash and Cash Equivalents at End of Period

Cash Flow Statement (Indirect Method)

A. Cash flows from operating activities

Net profit before tax and extraordinary

items Adjustments for:

Depreciation Foreign exchange Investments

Gain or loss on sale of fixed assets

Interest/dividend

Operating profit before working capital changes.

Adjustments for:

Trade & other receivables Inventories

Trade payables

Cash generation from operations

Interest paid

Direct taxes

Cash before extraordinary items

Deferred revenue

Net Cash from Operating Activities.

B. Cash flows from investing activities

Purchase of fixed assets

Sale of fixed assets

Sale of investments

Purchase of investments

Interest received

Dividend received

Loans to subsidiaries

Net Cash from Investing Activities

C. Cash flows from financing activities

Proceeds from issue of share capital

Proceeds from long term borrowings

Repayment to finance/lease liabilities

Dividend paid

Net Cash from Financing Activities

Net Increase (Decrease) in Cash and Cash Equivalents (A + B + C)

Cash and Cash Equivalents at the Beginning of the Period

Cash and Cash Equivalents at the End of the Period

Alternatively the Cash Flows from Operating Activities (Indirect Method) may be summarised as below:

Net profit before tax and extra-ordinary items

Adjustments for non-cash and non-operating items

(+) Depreciation

(+) Amortization of intangible assets, preliminary expenses, debenture discount and the like.

(+) or (-) Other non-cash and non-operating items included in net profit

Adjustments for gains and losses on sale of fixed assets and investments

(-) Gains on sale of fixed assets and investments

(+) Loss on sale of fixed assets and investments

Adjustments for changes in current assets and current liabilities

(-) Increases in current assets

(+) Decreases in current assets

(+) Increases in current liabilities

(-) Decreases in current liabilities

(-) Income-tax paid

(-) Extraordinary items

Net Cash Flows from Operating activities

We can summarize the all activities while preparing the cash flow as under:

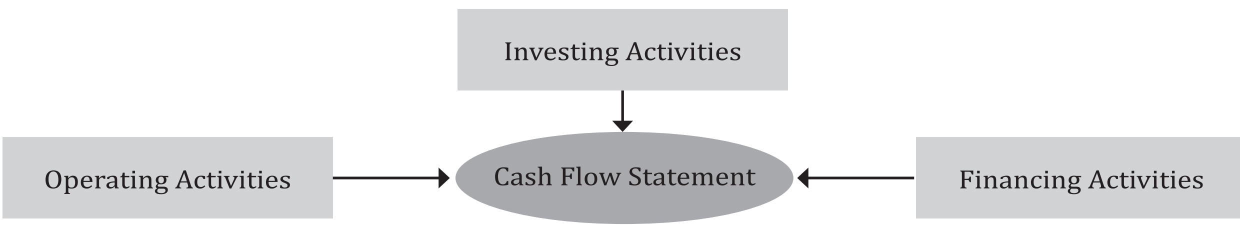


Illustration 1.

From the following balances calculate cash from operations :

Profit made during the year	**31st December**	
	2016	**2017**
Bills receivable	5,000	4700
Debtors	1000	1250
Bills payable	2000	2500

Creditors	800	600
Outstanding Expenses	100	120
Prepaid Expenses	80	70
Accrued Income	60	75
Income received in advanced	80	25
Profit made during the year	–	7,000

Cash Flow Statement Solution

Calculation of cash from Operating Activities

	Profit made during the year		7,000
Add :	Decrease in current assets and increases in current liabilities :		
	Decrease in bills receivable (C.A.)	300	
	Increase in bills payable (C.L.)	500	
	Increase in outstanding expenses (C.L.)	20	
	Decrease in prepaid expenses (C.A.)	10	830
			7,830
Less :	Increase in current assets and decrease in current liabilities :		
	Increase in debtors (C.A.)	250	
	Decrease in creditors (C.L.)	200	
	Increase in accrued income (C.A.)	15	
	Decrease in income received in advance (C.L.)	55	520
	Cash from Operating Activities		7,310

[C.A. = Current Asset, C.L. = Current Liability]

Illustration 2.

Given below are the balance sheets of Veer & Sons.

I. Equity and Liabilities	**01 Jan 2015 Rs.**	**31 Dec. 2015 Rs.**
Creditors Mrs. A's Loan Loans and Bank Capital	4,000 2,500 4,000 12,500	4,400 -- 5,000 15,300
	23,000	**24,700**

II. Assets		
Cash Debtors Stock Machinery Land Building	1,000 3,000 3,500 8,000 4,000 3,500	700 5,000 2,500 5,500 5,000 6,000
	23,000	**24,700**

During the year a machine costing Rs.1000 (accumulated depreciation Rs. 300) is sold for Rs. 500. The provisions for depreciation against machinery as on 01 January 2015 was Rs. 2500 and on 31 December 2015 Rs. 4000. Net profit for the year amounts to Rs. 4500.

You are required to prepare a Cash Flow Statement.

Solution

Cash Flow Statement

For the year ending 31-12-2015

(i) Cash flow from operating activities

Profit made during the year		4500
Add : Depreciation on machinery	1800	
Loss on sales of machinery*	200	
Decrease in stock	1000	
Increase in creditors	400	3400
		7900
Less : Increase in debtors		(-) 2000
Cash inflows from operating activities		5900
Cash flow from investing activities		
Sale of machinery*	500	
Purchase of land (5,000 – 4,000)	(-) 1000	
Purchase of building (6,000 – 3,500)	(-) 2500	(-) 3000
Net cash outflow from investing activities		
Cash flow from financing activities : Loan from Bank	1000	

Mrs. A's loan repaid	(-) 2500	
Drawings Net cash outflow from financial activities	(-) 1700	(-) 3200
Net decrease in cash and cash equivalents		(-) 300
Cash and cash equivalents on Jan 1, 2015		1000
Cash and cash equivalents on Dec 31, 2015		700

***Working Notes:**

Machinery Account (At Cost)

Particulars	Amount	Particulars	Amount
To Balance b/d	10500	By Bank	500
		By Loss on sale of Machinery	200
		By Provision for Depreciation	300
		By Balance c/d	9500
	10500		**10500**

Depreciation Account

Particulars	Amount	Particulars	Amount
To Machinery	300	By Balance b/d	2500
To Balance c/d	4000	By P & L A/c (balancing figure)	1800
	4300		**4300**

Illustration 3.

Following is the Balance Sheet of ABC Co. Ltd., on at 01st January, 2015 and 31st December 2015.

(Amount In Rs.)

	01-01-2015	31-12-2015
I. Equity and Liabilities :		
Equity share capital	30,000	35000
Share premium	--	3000
General Reserve	4500	6500
Profit and Loss	3000	8080
6% Debentures	--	7000
Sundry creditors	8500	9070
Provision for taxation	2250	4050
Proposed Divided	3000	3500
	51250	**76200**

	01-01-2015	31-12-2015
II. Assets :		
Land and building	23,000	39000
Plant and machinery	8540	14000
Furniture	550	650
Stock	8240	9570
Sundry debtors	7500	8550
Bank balance	3420	4430
	51250	**76200**

Additional Information :

Depreciation written off during the year

Land and building	6000
Plant and machinery	5000
Furniture	120

You are required to prepare a cash flow statement

Solution :

Note : The following accounts have been prepared to determine the relevant information.

Land and Building Account

Particulars	Amt	Particulars	Amt
To Balance b/d	23000	By Depreciation	6000
To Bank (purchase)	22000	By Balance c/d	39000
	45000		**45000**

Plant and Machinery Account

Particulars	Amt	Particulars	Amt
To Balance b/d	8540	By Depreciation	5000
To Bank (purchase)	10460	By Balance c/d	14000
	19000		**19000**

Furniture Account

Particulars	Amt	Particulars	Amt
To Balance b/d	550	By Depreciation	120
To Bank (purchase)	220	By Balance c/d	650
	770		**770**

Provision for Taxation Account

Particulars	Amt	Particulars	Amt
To Bank (tax paid)	2250	By Balance b/d	2250
To Balance c/d	4050	By P & L A/c	4050
	6300		**6300**

Cash Flow Statement for the year ended 31-12-2015

(i) Cash Flow from Operating Activities

		Rs.	Rs.
	Profit during the year (8080-3000)	5080	
Add :	**Depreciation on :**		
	Land and building	6000	
	Plant and machinery	5000	
	Furniture	120	
	General reserve (6,500 - 4,500)	2000	
	Taxation provision	4050	
	Proposed dividend	3500	
	Increase in creditors (9070 – 8500)	570	
		26320	
Less :	Increase in stock (9570 – 8240)	(-) 1330	
	Increase in debtors (8550 – 7500)	(-) 1050	
		23940	
Less :	Income tax paid	(-) 2250	
	Cash inflow from operating activities		**21690**
(ii) Cash Flow from Investing Activities			
Less :	Purchase of land and building	(-)22000	
	Purchase of plant and machinery	(-)10460	
	Purchase of furniture	(-) 220	
	Cash outflow from investing activities		**(-)32680**
(iii) Cash Flow from Financing Activities			
Add :	Issue of equity shares	5000	
	Share premium	3000	
	Issue of debentures	7000	
		15000	
Less :	Payment of dividend	(-) 3000	
	Cash inflow from financing activities		**12000**
	Net increase in cash		**1010**
Add :	Cash balance in the beginning		3420
	Cash balance at the end		4430

Illustration 4.

The following Balance Sheets are given :

I. Equity and Liabilities	**2014 (Rs.)**	**2015 (Rs.)**
Equity Share Capital	30000	40,000
Redeemable Pref. Capital	15000	10,000
General Reserve	4000	7000
Profit and Loss Account	3000	4800
Proposed Dividend	4200	5000
Creditors	5500	8300
Bills Payable	2000	1600
Provision for Taxation	4000	5000
	67700	**81700**

II. Assets		
Goodwill	11500	9000
Land and Building	20000	17000
Plant	8000	20000
Debtors	16000	20000
Stock	7700	10900
Bills Receivable	2000	3000
Cash in Hand	1500	1000
Cash at Bank	1000	800
	67700	**81700**

It is also given that :

(a) Depreciation of Rs. 2000 on land and building and Rs.1000 on plant has been charged in 2015.

(b) Interim dividend of Rs. 2000 has been paid in 2015.

(c) Income tax Rs.3500 has been paid during 2015.

Prepare Cash Flow Statement for the year 2015.

Solution :

Cash Flow Statement for the year 2015

(i)	**Cash from Operating Activities**	**Amt (Rs.)**	**Amt (Rs.)**
Add :	Profit during the year (4800 – 3000)	1800	
	Depreciation on plant	1000	
	Depreciation on building	2000	
	Goodwill written off (11500 – 9000)	2500	
	Proposed dividend	5000	
	Interim dividend	2000	
	General reserve (7000 – 4000)	3000	
	Provision for taxation (3500 + 5000 – 4000)	4500	
	Increase in creditors (C.L.) (8300 – 5500)	2800	
		24600	
Less:	Decrease in bills payable (C.L.) (1600 – 2000)	(-) 400	
	Increase in debtors (C.A.) (16000 – 20000)	(-) 4000	
	Increase in stock (C.A.) (7700 – 10900)	(-) 3200	
	Increase in bills receivable (C.A.) (2000 – 3000)	(-) 1000	
		16000	
	Income tax paid	3500	12500
	Cash inflow from operating activities		
(ii)	**Cash from Investing Activities**		
	Purchase of plant (8000 – 20000 – 1000)	(-) 13000	
	Sale of building (8500 – 17000 – 2000)	1000	(-) 12000
	Cash outflow from investing activities		
(iii)	**Cash from Financing Activities**		
	Issue of share capital (40000 – 30000)	10000	
	Redemption of pref. shares (10000 – 15000)	(-) 5000	
	Dividend paid	(-) 4200	
	Interim dividend paid	(-) 2000	
	Cash outflow from financing activities		(-) 1200
	Net decrease in cash		**(-) 700**
	Cash balance in the beginning		
	(1500 + 1000)		2500
	Cash balance at the end (1000 + 800)		1800

Illustration 5.

From the following condensed comparative Balance Sheets of Hotel Hills Ltd., and additional information, prepare a Cash Flow Statement for the year 2015.

I. Equity and Liabilities	2014 Rs.	2015 Rs.
Share Capital	7000	8000
Share Premium	900	1100
Retained earnings	2382	3082
7% Mortgage loan	--	2000
Creditors	690	600
Outstanding salaries	200	140
Provision for taxation	100	140
	11272	**15062**

II. Assets		
Plant & Machinery	6200	6600
Accumulation Dep. on plant and mach	(3700)	(2620)
Building	9500	11600
Accumulation dep. on buil.	(4300)	(4500)
Land	1000	1200
Stock	1022	962
Debtors	860	760
Prepaid expenses	72	80
Cash	618	980
	11272	**15062**

Additional information :

1. Plant costing Rs. 1600 (accumulated depreciation Rs. 1480) was sold during the year for Rs. 120.
2. Building was acquired during the year at a cost of Rs. 2100. In addition to cash payment of Rs. 100 a 7% mortgage loan was raised for the balance.
3. Dividend of Rs. 800 was paid during the year.
4. A sum of Rs. 1390 was transferred to provision for taxation account in 2015.

Solution :

Cash Flow Statement for the year 2015

(i) Cash flow from operating activities :		Amount (Rs.)
Net profit during the year (before divided payment and provision for tax)		2890
Add : Depreciation – Building (4500 – 3000)	200	
Plant (6600 – 6200)	400	
Decrease in stock (C.A.) (1022 – 962)	60	
Decrease in debtors (C.A.) (860 – 760)	100	
	760	
Less : Decrease in creditors (600 – 690)	(-) 90	
Decrease in outstanding salaries (140 – 200)	(-) 60	
Increase in prepaid expenses (72 – 80)	(-) 8	
Income tax paid (– 1390 – 100 + 140)	(-) 1350	
Net cash inflow from operating activities		(-) 748
(ii) Cash flow from investing activities :		2142
Purchase of Building	(-) 100	
Purchase of plant and machinery	(-) 2000	
Purchase of land	(-) 200	
Sale of plant	120	(-) 2180
Net cash outflow from investing activities (iii) Cash flow from financing activities : Issue of shares	1000	
Share premium	200	
Dividend paid	(-) 800	
Net cash inflow from financing activities		400
Net Increase in cash		362
Cash in the beginning		618
Cash at the end of 2015		980

Working Notes :

Retained Earnings Account

Particulars	**Amt**	**Particulars**	**Amt**
To Dividend paid To Balance c/d	800 3082	By Balance b/d By Profit during the year (B.F.)	2382 1500
	3882		**3882**

Plant and Machinery Account

Particulars	Amt	Particulars	Amt
To Balance b/d	6200	By Sale of plant	120
To Bank-Purchase(B.F.)	2000	By Dep. on plant sold	1480
		By Balanced c/d	6600
	8200		**8200**

Accumulated Depreciation on Plant & Mach. Account

Particulars	Amt	Particulars	Amt
To Plant (Dep.)	1480	By Balance b/d	3700
To Balance c/d	2620	By P & L A/c (Dep.)	400
	4100		**4100**

Building Account

Particulars	Amt	Particulars	Amt
To Balance b/d	9500	By Balance b/d	11600
To Bank (purchase) To Mortgage	100		
Loan (Purchase)	2000		
	11600		**11600**

Accumulated Depreciation on Building Account

Particulars	Amt	Particulars	Amt
To Balance c/d	4500	By Balance b/d	4300
		By P & L A/c (Dep.)	200
	4500		**4500**

Provision for Taxation Account

Particulars	Amt	Particulars	Amt
To Income tax paid (B.F.)	1350	By Balance b/d By P & L A/c	100
To Balance c/d	140	(provision during the year)	1390
	1490		**1490**

Fund Flow Statement

Fund flow statement also referred to as statement of "source and application of funds" presents the movement of funds and helps to understand the changes in the structure of assets, liabilities and equity capital. The analysis of financial statements helps to the management by providing additional information in a meaningful manner. The information required for the preparation of funds flow statement is drawn from the basic financial statements such as the Balance Sheet and statement of profit and loss .The most commonly accepted form of fund flow is the one prepared on working capital basis. Flow of funds includes both "inflow" and "outflow".

> The term "flow of funds" means "Transfer of economic values from one assets to another and one liability to another." Flow of fund takes place whenever there is change in working capital. This change may be either inflow or outflow of funds.

Difference between Cash Flow Analysis and Funds Flow Analysis

Following are the points of difference between a cash flow analysis and a funds flow analysis:

1. A cash flow analysis is concerned only with the change in the cash position, while a fund flow analysis is concerned with change in working capital position, between two balance sheet dates. Cash is only one of the constituents of working capital besides several other constituents, such as inventories, accounts receivable and prepaid expenses.
2. A cash flow statement is merely a record of cash receipts and disbursements. No doubt it is valuable in its own way but it fails to bring to light many important changes involving the disposition of resources. While studying the short-term solvency of a business one is interested not only in cash balance but also in the assets which can be easily converted into cash.
3. Cash flow analysis is more useful to the management as a tool of financial analysis in short-periods as compared to funds flow analysis, It has rightly been said that shorter the period covered by the analysis, greater is the importance of cash flow analysis. For example, if one can find out whether the business can meet its obligations maturing after 10 years from now, a good estimate can be made about the firm's capacity to meet its long-term obligations, if changes in working capital position on account of operations are observed. However, if the firm's capacity to meet a liability, maturing after one month, is to be seen, the realistic approach would be to consider the projected change in the cash position rather than an expected change in the working capital position.
4. Cash is part of working capital and therefore, an improvement in cash position results in an improvement in the funds position, but the reverse is not true. In other words 'inflow of cash' results in 'inflow of funds' but inflow of funds may not necessarily results in 'inflow of cash.' Thus, sound funds position does not necessarily means sound cash position, but a sound cash position generally means a sound funds position.
5. Another distinction between a cash flow analysis and a funds flow analysis can be made on the basis of the techniques of their preparation. An increase in a current liability or decrease in a current asset results in a decrease in working capital and vice versa; while an increase in a current liability or decrease in a current asset (other than cash) will result in an increase in cash and vice versa.

UTILITY OF CASH FLOW ANALYSIS

A cash flow statement is useful for short-term planning. A business enterprise needs sufficient cash to meet its various obligations in the near future such as payment for purchase of fixed assets, payment of debts maturing in the near future, expenses of the business, etc. A historical analysis of the different sources and applications of cash will enable the management to make a reliable cash flow projections for the immediate future. It may then plan out for investment of surplus to meet the deficit, if any. Thus, a cash flow analysis is an important financial tool for the management. Its chief advantages are as follows:

1. **Helps in efficient cash management:** Cash flow analysis helps in evaluating financial policies and cash position. Cash is the basis for all operations; hence a projected cash flow statement will enable the management to plan and coordinate the financial operations properly. The management can know how much cash is needed, from which source it will be derived, how much can be generated internally and how much could be obtained from outside.
2. **Helps in internal financial management:** Cash flow analysis provides information about funds which will be available from operations. This will help the management in determining policies regarding internal financial management, e.g., possibility of repayment of long-term debts, dividend policies and planning the replacement of plant and machinery.
3. **Discloses the movements of cash:** Cash flow statement discloses the complete story of cash movement. The increase or decrease in cash, and the reasons therefore can be known. It discloses the reasons for low cash balance in spite of heavy operating profits or for heavy cash balance in spite of low profits. However, comparison of original forecast with the actual results highlights the trends of movements of cash which may otherwise go undetected.
4. **Discloses success or failure of cash planning:** The extent of success or failure of cash planning can be known by comparing the projected cash flow statement with the actual cash flow statement so that necessary remedial measures can be taken.

5. **Evaluate management decisions:** The statement of cash flows reports the companies' investing and financing activities and thus gives the investors and creditors about cash flow information for evaluating managers' decisions.
6. **Show the relationship of net income to changes in the business cash:** Usually cash and net income move together. High levels of income tend to lead to increase in cash and vice-versa. However, a company's cash balance can decrease when its net income is high, and cash can increase when income is low. The users want to know the difference between the net profit and net cash provided by operations. The net profit shows the progress of the business during the year while cash flow relates more to the liquidity of the business. The users can assess the reliability of net profit with the help of cash flow statement.
7. **Efficiency in cash management:** Cash flow analysis helps in evaluating financial policies and cash position. It facilitates the management to plan and co-ordinate the financial operations properly. The management can estimate how much funds are needed, from which source they will be derived, how much can be generated internally and how much should be arranged from outside.

LIMITATIONS OF CASH FLOW ANALYSIS

Cash flow analysis is a useful tool of financial analysis. However, it has its own limitations. These limitations are as under:

1. Cash flow statement cannot be equated with the income statement. An income statement takes into account both cash as well as non-cash items; therefore, net cash does not necessarily mean net income of the business.
2. The cash balance as disclosed by the cash flow statement may not represent the real liquid position of the business since it can be easily influenced by postponing purchases and other payments.
3. Cash flow statement cannot replace the income statement or the funds flow statement. Each of them has a separate function to perform.

In spite of these limitations it can be said that cash flow statement is a useful supplementary instrument. It discloses the volume as well as the speed at which the cash flows in the different segments of the business. This helps the management in knowing the amount of capital tied up in a particular segment of the business. The technique of cash flow analysis, when used in conjunction with ratio analysis, serves as a barometer in measuring the profitability and financial position of the business.

LESSON ROUND-UP

- Cash Flow Statement is in statement of changes in cash position from the beginning and till end of the accounting period.
- As per the Companies Act, 2013, Cash Flow Statement is required to be prepared by every company except a one person, small and dormant company.
- Cash comprises cash on hand and demand deposits with banks.
- Cash equivalents are 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.
- Accounting Standard (AS) -3 on Cash Flow Statement issued by ICAI is mandatory, AS-3 requires that cash flow statement should report cash flow during the period classified by operating activities, investing activities and financing activities.
- Cash flow means cash inflow and cash outflow.
- Cash inflow means source of cash, and it increases the total cash available at the disposal of the firm.
- Cash outflow means use of cash which decreases the total cash available at the disposal of the firm.
- Net cash flow is the difference between cash inflow and cash outflow.
- Operating activities are the principal revenue activities of the enterprise. These pertain to cash generated by sales and all the operating expenses and are most often the biggest source of cash fl
- Investing activities pertain to the acquisitions and disposal of long-term assets, such as plant, machinery, land and building and other investments.
- Financing activities are those that result in changes in the size and composition of the owner's capital and borrowings of the enterprise.

TEST YOURSELF

1. What is a cash flow statement? State its uses and limitations.
2. Which are the various sources and uses of cash flows from operating activities?
3. Distinguish between cash flow statement and funds flow statement.
4. What do you mean by cash from operating activities? How is this calculated?
5. Discuss briefly the major classification of cash flows as per AS-3 (Revised).
6. From the following Balance Sheets of Roop Ltd., prepare a cash flow statement.

I. Equity and Liabilities	**2014 Rs.**	**2015 Rs.**
Equity Share Capital	15000	2,0000
12% Preference share capital	7500	5000
General Reserve	2000	3500
P & L A/c	1500	2400
Creditors	3750	4950
	29750	**35850**
II. Assets		
Goodwill Building Plant Debtors Stock	3600	2000
Cash	8000	6000
	4000	10000
	11900	15450
	1000	1500
	1250	900
	29750	**35850**

Depreciation charged on plant was Rs. 1000 and on building Rs. 6000.

[Ans. Cash from operations Rs. 8150; Net decrease in cash Rs. 350.

Purchase of plant Rs. 7000; purchase of building Rs. 4000]

7. Calculate Cash Flow from Operating Activity

Balance Sheet

As on 1st January, 2017

I. Equity and Liabilities	**Rs.**
Equity	50,000
Capital	10,000
General Reserve	5,000
Profit & Loss Balance Debentures	20,000
Sundry Creditors	20,000
Proposed Dividend	5,000
	1,10,000

II. Assets	
Fixed Assets	40,000
Investments	10,000
Sundry Debtors	20,000
Stock	20,000
Cash	15000
Goodwill	5000
	1,10,000

8. Calculate Cash Flow from Operating Activity

Balance Sheet

As on 1st December, 2017

I. Equity and Liabilities	**Rs.**
Equity	65,000
Capital General Reserve	15,000
Profit & Loss	15,000
Balance Debentures	20,000
Sundry Creditors	20,000
Proposed Dividend	6000
	141500

II. Assets	**Rs.**
Fixed Assets	50,000
Less : Dep.	45,000
Investment	5,000
Sundry	10,000
Debtors	30,000
Stock	25,000
Cash	315,00
	141500

[Ans. Cash from operations Rs. 16500; Net increase in cash Rs. 16500]

9. The Balance Sheets of a Prem Limited Company at 31.3.2016 and 31.3.2017 were as follows :

	31.3.2016	**31.3.2017**
I. Equity and Liabilities	**Rs.**	**Rs.**
Equity Share Capital	4500	6500
General Reserve	500	750
Profit and Loss Account	1000	1500

Debentures	1000	2000
Sundry	870	1100
Creditors	7870	11850
Assets	Rs.	Rs.
Fixed Assets	4600	8300
Stock	1100	1300
Debtors	1870	1950
Cash	200	2500
Preliminary Expenses	100	50
	7870	**11850**

Additional information :

Depreciation on fixed assets for the year 2016-17 was Rs. 1170. Prepare a Cash Flow Statement [Ans. Cash from operations Rs. 1850; Net increase in cash Rs. 50]

10. Balance sheet of XYZ is as follows:

I. Equity and Liabilities	**2016 Rs.**	**2017 Rs.**
Share	7000	7400
Capital Debentures	1200	600
Sundry	1036	1184
Creditors	70	80
Provision for doubtful debts P & L A/c	1004	1056
	10310	**10320**
II. Assets		
Cash	900	780
Sundry Debtors	1490	1770
Stock Land Goodwill	4920	4270
	2000	3000
	1000	500
	10310	**10320**

Additional Information :

(i) Dividend totaling Rs. 350 was paid.

(ii) Land was purchased for Rs. 1000 and amount provided for the amortization of goodwill totaled Rs. 500.

(iii) Debentures of Rs. 600 were redeemed. Prepare a Cash flow statement.

[Ans. Cash from operations Rs. 1430; Net Decrease in cash Rs. 120] [Hint : Provision for doubtful debts has been added back to profit to calculate cash from operations]

11. he following are the balance sheets of Yes Ltd., as on 31st December 2016 and 2017

I. Equity and Liabilities	**2016**	**2017**
	Rs.	**Rs.**
Equity Share Capital	7,0000	80000
General	45000	60000
Reserve	17300	2330
Profit and Loss	70000	90000
Account	115000	140000
Trade Creditors	8000	9200
Bank overdrafts	19700	37000
Creditors for expenses Provision for taxation Proposed dividends	15000	15000
	360000	**454500**
II. Assets		
Fixed	50000	60000
Assets	10000	8000
Additions	60000	68000
Depreciation	20000	32000
Investments	40000	36000
Debtors	12000	--
Stock	130000	218500
	178000	200000
	360000	**454500**

The profit for the year 2017 as per profit and loss account after providing for depreciation amounted to Rs. 70,000whichwas further adjustedas follows:

	Rs.	**Rs.**
Profit and Loss balance b/d		17300
Profit after depreciation but before tax during the year 2017		70000
Add : Profit on sale of investments		2000
		89300
Less : Provision for taxation	36000	
Transfer to reserve	15000	
Proposed dividend	15000	66000
		23300

You are informed that :

(i) The sales and purchases of the year 2017 amounted to Rs. 8000 and Rs. 6500 respectively.

(ii) In arriving at the profit from sales referred to already, the cost of sales and administrative and selling expenses were deducted.

Prepare Cash Flow Statement for the year 2017

[Ans. Net cash outflow from operating activities Rs. 26000; Net decrease in cash (bank over draft Rs. 25000)]

12. The Balance Sheet of Smartkart Ltd, as at March 31st 2016 and 2017 are given follows :

I. Equity and Liabilities	**2016**	**2017**
	Rs.	**Rs.**
Accumulated	2000	2150
Depreciation	720	900
Creditors	600	600
TaxesPayable	1400	2600
Bills payable	3500	3500
Debentures	5000	6000
Equity capital	2640	2090
Profit and LossAccount		
	15860	**17840**
II. Assets		
Cash	600	800
Debtors	700	1200
Prepaid	360	240
Rent Stock	3200	2800
Investments	4000	4000
Fixed Assets	7000	8800
	15860	**17840**

Additional information

1. Purchased a new fixed asset costing Rs. 2500; paid Rs. 1300 cash and given short-term bills payable for the remainder.
2. Net loss for the year ending 31-3-2017 was Rs. 150.
3. One fully depreciated asset of an original cost of Rs. 700 and no salvage value was abandoned.

[Ans. Cash inflow from operating activities Rs. 900 ; Net increase in cash Rs. 200] [Hint. Tax paid Rs. 600, Dividend paid Rs. 400 [i.e. 2640 – 150-2090]