

**Chapter 5**  
**CASH FLOW STATEMENT**

**Meaning :**

Cash flow statement is statement of receipt (inflow) & disbursement (outflow) of cash.

Cash flow may be categorized under:

- 1) Cash flow from operating activity.
- 2) Cash flow from investing activity
- 3) Cash flow from financing activity

INDIRECT METHOD  
**CASH FLOW STATEMENT**

Particular	Rs.
<b>1. Cash flow from operating activity</b>	
Net profit as per P & L A/c or Difference between closing & opening balance of P & I A/c	xxx
<b>ADD:</b> Transfer to reserve Proposed dividend for current year* Interim dividend paid during the year** Net provision for tax made during current year Extra-ordinary item, if any debited to P & L A/c	
<b>LESS</b> Refund of tax, credited to P & L A/c Extra-ordinary item ,if any credited to P & L A/c	
<b>A) Net Profit before taxation &amp; extra-ordinary item</b>	xxx

\*Proposed dividend of current year become due for payment & it is paid in next year .

\*\*Interim dividend of current year become due for payment & paid during current year itself .

<b>Adjustment for non cash &amp; non-operating item</b>	
<b>ADD:</b> Depreciation Goodwill / Patent /Preliminary expense write off Discount on issue of share / Debenture write off Loss on sale of fixed asset Interest on long term borrowing & debenture paid	
<b>LESS:</b> Interest / Dividend / Rental Income received Profit on sale of fixed asset	
<b>B) Operating profit before working capital change</b>	xxx
<b>ADD:</b> ↓In current asset & ↑In current liability	xxx
<b>LESS:</b> ↑In current asset & ↓In current liability	(xxx)
<b>C) Cash generated from operation</b>	xxx

<b>LESS:</b>	Net Income Tax paid	(xxx)
D)	<b>Cash flow before extraordinary item</b>	xxx
<b>LESS:</b>	Extraordinary Item	(xxx)
	<b>Net cash flow from operating activity</b>	xxx
<b>2.</b>	<b>Cash flow from Investing Activity</b>	
<b>ADD:</b>	Proceed from sale of fixed asset / Investment / Intangible asset Interest / Dividend / Rental Income received	
<b>LESS:</b>	Purchase of fixed asset / Investment / Intangible asset Extra-ordinary Item	
	<b>Net cash flow from Investing activity</b>	xxx
<b>3.</b>	<b>Cash Flow from financing activity</b>	Rs.
<b>ADD:</b>	Proceed from issue of share / debenture / long term borrowing	
<b>LESS:</b>	Redemption of Debenture /preference share Final Dividend / Interim Dividend Paid Interest on Debenture & Loan paid Repayment of loan. Extraordinary item.	
	<b>Net cash flow from financing activity</b>	xxx
<b>4.</b>	Net increase / Decrease in cash. (1+2+3)	xxx
<b>ADD:</b>	Opening cash balance	xxx
	Closing cash balance.	xxx

**Determination of Income Tax paid from information given**

**Provision for Tax Account**

Particular	Rs.	Particular.	Rs.
To Bank A/c (tax-paid) - Bal. fig	xxx	By balance b/d	xxx
To balance c/d	xxx	By P & L A/c (Provision made during year)	xxx
	xxx		xxx

**PREPERATION OF FIXED ASSETS ACCOUNT****1. Fixed assets Account (on original cost basis)**

Depreciation is not charged on fixed asset & fixed asset are shown at their original cost.

**In such case, two accounts are prepared,**

(i) Fixed assets Account

Disclose sale / purchase of fixed asset during the year.

(ii) Provision for depreciation Account disclose amount of depreciation charged during years.

**Note:** When fixed asset is given on original cost basis then opening & closing balance of provision of depreciation for fixed asset & accumulated depreciation is given.

**(i) FIXED ASSET ACCOUNT (AT COST)**

Particular	Rs.	Particular	Rs.
To balance b/d	xxx	By P / L A/c	xxx
To P & L A/c	xxx	(Loss on sale of fixed asset)	
(Profit on sale of fixed asset)	xxx	By Accumulated Depreciation A/c	xxx
To Bank A/c (Purchase of fixed asset) - Bal. fig.		(Accumulated Dep. On fixed asset sold)	
		By Bank A/c(sale of fixed asset)	xxx
		By balance c/d.	xxx
	xxx		xxx

**(ii) ACCUMULATED DEPRICIATION ACCOUNT (CR)**

Particular	Rs.	Particular	Rs.
To fixed asset A/c-	xxx	By balance b/d.	xxx
(Acc. Dep. on fixed asset sold)		By Depreciation A/c -Bal.fig	xxx
To balance c/d	xxx		
	xxx		xxx

**(iii) Fixed assets Account (at written down value)**

Here, Depreciation is charge on fixed asset & fixed asset are shown at their written down value.

In such case, only one account is prepared (Fixed assets account.)

Fixed assets account disclose sale / purchase of fixed asset during the year.

**FIXED ASSETS ACCOUNT (WDV)**

Particular	Rs.	Particular	Rs.
To Balance bld.	xxx	By P & L A/c	xxx
To P & L A/c	xxx	(Loss on sale of fixed asset)	
(Profit on sale of fixed asset)		By Depreciation A/c	xxx
To Bank A/c- (Bal.fig) - Purchase	xxx	By Bank A/c- (Bal.fig) – Sale	xxx
		By balance c/d	xxx
	xxx		xxx

**Video Lecture 1 : Cash flow from operating activities**

Format of Cash flow from operating activities	
Provision of tax	Q 10
Income tax refund	Q 13
Current investment & proposed dividend	Q 25
Cash flow statement from Income statement	Demo Q 1

**Video Lecture 2 : Cash flow from investing activities**

Format of Cash flow from investing activities	Q 33
Half of asset sold (Preparation of Asset Account)	Q 29
Asset sold at profit (Preparation of Asset Account to determine sale fig )	Q 32
Provision of depreciation Account	Q 28
Purchase of Goodwill	Q 34
Interest / Dividend / Rent recieved	Q 36

**Video Lecture 3 : Cash flow from financing activities**

Format of Cash flow from financing activities	
Issue of share at premium	Q 37
Redemption of preference share at premium	Q 38
Issue of Bonus Share	Q 40

**Video Lecture 4 : Cash flow from statement**

Cash flow statement ( without adjustment)	Q 44
Provision of depreciation account & Current Investment	Q 45
Provision of tax made during year	Demo Q 1

**Demo Que (Explained in Video Lecture 4)**

1. Summarised Balance Sheets of XYZ Ltd. as at 31<sup>st</sup> March, 2016 and 2015 are.

Particulars	Note No.	31 <sup>st</sup> March 2016(Rs.)	31 <sup>st</sup> March 2015(Rs.)
<b>I. Equity and liabilities</b>			
<b>1. Shareholder's Fund</b>			
a. Share Capital		4,50,000	4,50,000
b. Reserves & Surplus	1	3,78,000	3,56,000
<b>2. Non Current Liabilities</b>			
Long-term Borrowing: Mortgage Loan		2,70,000	-
<b>3. Current Liabilities</b>			
a. Trade Payable		1,34,000	1,68,000
b. Short-term Provisions: Provision for Tax		10,000	75,000
<b>Total</b>		<b>12,42,000</b>	<b>10,49,000</b>
<b>II. Assets</b>			
<b>1. Non-Current Assets</b>			
a. Fixed Assets		3,20,000	4,00,000
b. Non-Current Investments		60,000	50,000
<b>2. Current Assets</b>			
a. Current Investment		17,000	19,000
b. Inventories		2,10,000	2,40,000
c. Trade Receivables		4,55,000	2,10,000
d. Cash and Cash Equivalents		1,80,000	1,30,000
<b>Total</b>		<b>12,42,000</b>	<b>10,49,000</b>

**Note to Accounts**

Particulars	31st March, 2016 (Rs)	31st March, 2015 (Rs)
<b>1. Reserve and Surplus</b>		
General Reserve	3,10,000	3,00,000
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	68,000	56,000
	<b>3,78,000</b>	<b>3,56,000</b>

Additional Information:

- Investments costing Rs.8,000 were sold during the year for Rs.8,500.
- Provision for tax made during the year was Rs.9,000.
- During the year, part of the fixed assets costing Rs.10,000 was sold for Rs.12,000 and the gain (profit) was included in the Statement of Profit and Loss.
- Interim Dividend paid during the year amounted to Rs.40,000.

Prepare Cash Flow Statement.

**Video Lecture 5 : Cash flow statement**

Topic covered	TS Grewal 2017
Tax paid & Decrease in Bank Overdraft	Q 56
Provision of doubtful debt & Treatment of silent item	Q 60
Treatment of silent item	Demo Q 1
Calculation of Interest when Borrowing date specified	Demo Q 2

**Demo Que (Explained in Video Lecture 5)**

1. From the following particulars of XYZ Ltd, prepare Cash Flow Statement:

Particulars	Note No.	31 <sup>st</sup> March 2016(Rs.)	31 <sup>st</sup> March 2015(Rs.)
<b>I. Equity and liabilities</b>			
<b>1. Shareholder's Fund</b>			
a. Share Capital	1	4,50,000	5,00,000
b. Reserves & Surplus	2	2,55,000	1,00,000
<b>2. Non Current Liabilities</b>			
Long-term Borrowing: Mortgage Loan		2,00,000	1,00,000
<b>3. Current Liabilities</b>			
a. Trade Payable		1,45,000	70,000
<b>Total</b>		<b>10,50,000</b>	<b>7,70,000</b>
<b>II. Assets</b>			
<b>1. Non-Current Assets</b>			
a. Fixed Assets (Tangible)		6,20,000	5,10,000
b. 10% Investments		80,000	30,000
<b>2. Current Assets</b>			
a. Current Investment		10,000	8,000
b. Trade Receivables	3	1,85,000	90,000
c. Inventories		90,000	1,00,000
d. Cash and Cash Equivalentts	4	65,000	32,000
<b>Total</b>		<b>10,50,000</b>	<b>7,70,000</b>

**Notes to Accounts**

Particulars	31st March, 2016 (Rs)	31st March, 2015 (Rs)
<b>1. Share Capital</b>		
Equity Share Capital	3,50,000	3,00,000
12% Preference Share Capital	1,00,000	2,00,000
	<b>4,50,000</b>	<b>5,00,000</b>
<b>2. Reserve and Surplus</b>		
Securities Premium Reserve	5,000	-
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	2,50,000	1,00,000
	<b>2,55,000</b>	<b>1,00,000</b>
<b>3. Trade Receivables</b>		
Sundry Debtors	2,00,000	1,00,000
<i>Less:</i> Provision for Doubtful Debts	15,000	10,000
	<b>1,85,000</b>	<b>90,000</b>
<b>4. Cash and Cash Equivalentts</b>		
Cash in Hand	25,000	12,000
Cash at Bank	40,000	20,000
	<b>65,000</b>	<b>32,000</b>

You are informed that during the year:

- (i) A machine with a book value of Rs.40,000 was sold for Rs.25,000.
- (ii) Depreciation charged during the year was Rs.70,000.
- (iii) All Trade Receivables are good.

- (iv) Preference Shares were redeemed on 31<sup>st</sup> March, 2016 at a premium of 5%.
- (v) An Interim Dividend @ 15% was paid on Equity Shares on 31<sup>st</sup> March, 2016. Preference Dividend was also paid on 31<sup>st</sup> March, 2016.
- (vi) Fresh Equity Shares were issued at a premium of 10% on 31<sup>st</sup> March, 2016.

[Ans : Operating Activity – Rs 3,06,000 , Investing Activity – (Rs 2,42,000) , Financing Activity – (Rs 29,000)]

2. From the following Balance Sheets of X Ltd. as at 31<sup>st</sup> March, 2016 and 31<sup>st</sup> March, 2015, prepare Cash Flow Statement.

Particulars	Note No.	31 <sup>st</sup> March 2016(Rs.)	31 <sup>st</sup> March 2015(Rs.)
<b>I. Equity and liabilities</b>			
<b>1. Shareholder's Fund</b>			
a. Share Capital		3,60,000	3,00,000
b. Reserves & Surplus (Surplus, i.e., Balance in Statement of Profit and Loss)		2,00,000	1,60,000
<b>2. Non Current Liabilities</b>			
Long-term Borrowings	1	3,78,000	2,62,000
<b>3. Current Liabilities</b>			
a. Trade Payable	2	28,000	28,000
b. Other Current Liabilities (Outstanding Expenses)		2,000	6,000
<b>Total</b>		9,68,000	7,56,000
<b>II. Assets</b>			
<b>3. Non-Current Assets</b>			
Fixed Assets			
(i) Tangible Assets	3	6,40,000	4,60,000
(ii) Intangible Assets: Goodwill		10,000	20,000
<b>4. Current Assets</b>			
a. Current Investment		34,000	8,000
b. Trade Receivables	4	1,68,000	90,000
c. Cash and Cash Equivalent: Cash at Bank		1,16,000	1,00,000
<b>Total</b>		10,50,000	7,70,000

**Notes to Accounts**

Particulars	31st March, 2016 (Rs)	31st March, 2015 (Rs)
<b>1. Long-term Borrowings</b>		
12% Debentures	1,38,000	1,02,000
12% Public Deposits	2,40,000	1,60,000
	<u>3,78,000</u>	<u>2,62,000</u>
<b>2. Trade Payables</b>		
Creditors	20,000	16,000
Bills Payable	8,000	12,000
	<u>28,000</u>	<u>28,000</u>
<b>3. Tangible Fixed Assets</b>		
Building	4,40,000	3,00,000
Plant	2,00,000	1,60,000
	<u>6,40,000</u>	<u>4,60,000</u>
<b>4. Trade Receivables</b>		
Debtors	1,50,000	1,20,000
Bills Receivable	18,000	16,000
	<u>1,68,000</u>	<u>1,36,000</u>

**Additional Information :**

1. Depreciation charged on Building Rs.20,000 and Plant Rs.10,000.
2. Debentures of Rs.36,000 were issued on 1<sup>st</sup> October, 2015.
3. Deposits of Rs.80,000 were taken on 31<sup>st</sup> March, 2016.

[Ans : Operating Activity – Rs 83,600 , Investing Activity – (Rs 2,10,000) , Financing Activity – Rs 1,42,000]

**Important & Frequently Asked Board Question**

1 What do you mean by cash flow statement?

Sol Cash flow statement is statement of inflow & outflow of cash from operating, investing and financing activities during a specific period.

2 What are the objectives of preparing cash flow statement?

Sol To ascertain the specific sources of inflow & outflow of cash from operating, investing and financing activities during a specific period.

3 State whether 'Conversion of debentures into Equity Shares by a Financing Company will result into inflow, outflow or no flow of cash?

Sol There is no flow of cash , as there is merely transfer of title in documents.

4 How are various activities classified as per AS-3 (Revised) ?

- Sol
- a) Operating Activities.
  - b) Investing Activities.
  - c) Financing Activities.



5 Why is the cash flow statement not a suitable judge of profitability ?

Sol Cash Flow statement is prepared on cash basis of accounting but profit is calculated on accrual basis. So cash flow statement is not a judge of profitability.

6 Under which accounting standard , cash flow statement is prepared ?

Sol Under Revised accounting standard-3.

7 Why do we add back depreciation to net profit while calculating cash flow from operating activities.

Sol Depreciation reduces the net profit without reducing the cash balance as it is a non-cash item.

8 How will you classify loans given by Birla Finance Ltd.? While preparing cash flow statement.

Sol As Operating Activities.

9 How will you classify deposits by customers in HDFC Bank while preparing cash flow statement.

Sol Operating Activities.

10 A company receives a dividend of Rs. 2 Lakhs on its investment in other company's share will it be Cash inflow from operating or investing activities in case of :

(i) Finance Company.

(ii) Non-Finance Company.

Sol It will be operating activities in case of a finance company and investing activities in case of Non-Financing Company.

### Practice Question

Q1. Prepare a cash flow statement on the basis of the information given in the balance sheet of ABC Ltd, as on 31<sup>st</sup> March, 2012 and 2011:

Particulars	Note No.	31 <sup>st</sup> March 2012(Rs.)	31 <sup>st</sup> March 2011(Rs.)
<b>I. Equity and liabilities</b>			
<b>1. Shareholder's Fund</b>			
a. Share Capital		70,000	60,000
b. Reserves & Surplus	1	44,000	8,000
<b>2. Non Current Liabilities</b>			
a. Long Term Borrowings	2	50,000	42,000
<b>3. Current Liabilities</b>			
a. Trade Payables		25,000	17,000
<b>Total</b>		<b>1,89,000</b>	<b>1,27,000</b>
<b>II. Assets</b>			
<b>1. Non-Current Assets</b>			
a. Fixed Assets			
Tangible Assets		82,000	64,000
Intangible Assets		16,000	20,000
b. Non-Current Investments			
Current assets		16,000	6,000
<b>2. Current Assets</b>			
Current Investments(Marketable)			
Inventories		18,000	20,000
Cash and Cash Equivalent		49,000	12,000
		8,000	5,000
<b>Total</b>		<b>1,89,000</b>	<b>1,27,000</b>

**Notes to Accounts**

Particulars	31 <sup>st</sup> March 2012(Rs.)	31 <sup>st</sup> March 2011(Rs.)
<b>1. Reserves and Surplus</b>		
General Reserve	30,000	20,000
Surplus i.e. Balance in statement of Profit and loss	14,000	(12,000)
	44,000	8,000
<b>2. Long Term Borrowings</b>		
10% Debentures	50,000	42,000
<b>3. Intangible Assets</b>		
Goodwill	16,000	20,000

**Additional Information:**

1. Depreciation was provided on tangible assets (machinery) during the year Rs.8,000.
2. Interest paid on debentures Rs.4,200.

Sol

**CASH FLOW STATEMENT**  
For the year ended 31, March, 2012

PARTICULARS	Rs.
<b>A. Cash flow from Operating Activity</b>	
Profit after Tax	26,000
+ Transfer to reserve	10,000
<b>Profit before tax</b>	36,000
+ Depreciation	8,000
Goodwill written off	4,000
Interest on debentures	4,200
	16,200
	52,200
- Interest received on non current investments	(600)
<b>Operation profit before working capital change</b>	51,600
+ Decrease in C.A & Increase in C.L	
Inc. in trade payable	8,000
	59,600
- Increase in C.A & Decrease in C.L	
Inventory	(37,000)
<b>Cash flow from operating activity</b>	22,600
<b>B. Cash flow from Investing Activity</b>	
Interest received on current Investment	600
- Purchase of Tangible Asset	(26,000)
- Purchase of Non-current Investment	(10,000)
<b>Cash used in Investing Activity</b>	(35,400)
<b>C. Cash flow from financing activity</b>	
Issue of shares	10,000
Long Term borrowings	8,000
- Interest paid on debentures	(4,200)
<b>Cash flow from financing activity</b>	13,800
<b>D. Net increase and decrease in cash and cash equivalent</b>	
(A+B+C) (22,600+13,800-35,400)	1,000
<b>E. Opening cash and cash equivalent (20,000+5,000)</b>	25,000
<b>Closing cash and cash equivalent (W.N1)</b>	26,000

<b>Working Note</b>	<b>2011</b>	<b>2012</b>
1. Current Investment (Marketable)	20,000	18,000
Cash	5,000	8,000
Cash and cash equivalent	25,000	26,000

Q2. Prepare cash flow statement of Samir Ltd. from the given information:

Particulars	2013	2012
<b>I. Equity and liabilities</b>		
<b>1. Shareholders fund</b>		
a. Share capital	90,000	90,000
b. Reserves and surplus	75,600	71,200
<b>2. Non-current liabilities</b>		
a. Long-term borrowings	54,000	...
<b>3. Current liabilities</b>		
a. Trade Payables	26,800	33,600
b. Short-term provisions	2,000	15,000
<b>Total</b>	<b>2,48,400</b>	<b>2,09,800</b>
<b>II. Assets</b>		
<b>1. Non-current Assets</b>		
a. Tangible Assets	64,000	80,000
b. Intangible Assets	12,000	10,000
<b>2. Current Assets</b>		
a. Inventories	42,000	48,000
b. Trade Receivables	91,000	42,000
c. Cash and cash equivalent	39,400	29,800
<b>Total</b>	<b>2,48,400</b>	<b>2,09,800</b>

**Note to Accounts**

Particulars	2013	2012
1. Share Capital Equity share	90,000	90,000
2. Reserves and surplus Surplus i.e., Balance in statement of profit and loss	75,600	71,200
3. Long Term borrowings Mortgage Loan	54,000	...
4. Short term provision Provision for tax	2,000	15,000
5. Tangible Assets Land	28,000	50,000
Plant and Machinery	36,000	30,000
6. Intangible Assets Goodwill	12,000	10,000

Additional Information:

- Gain on sale of land Rs.6000
- Depreciation on plant and machinery was provided at 10% p.a.

3. Mortgage loan was taken on 1<sup>st</sup> April @ 12%p.a. ad interest has been paid upto date.
  4. Provision for tax made during the year Rs.18,000.
- You are required to prepare cash flow statement.

Sol

**Cash flow statement  
for the year ended 2013**

Particulars	Amt.(Rs.)
<b><u>A. Cash flow from Operating Activity</u></b>	
Profit for tax	4,400
+ Provision for tax	18,000
Profit before tax	22,400
+ Depreciation	3,000
Interest on loan(54,000*12/100*9/12)	4,860
	7,860
	30,260
- Gain on sale of land	(6,000)
- Operating profit before W.C changes	24,260
+ Dec. in C.A & Inc. in C.L	
Inventory	6,000
- Inc. in C.A & Dec. in C.L	30,260
Trade Receivable	49,000
Trade Payable	6,800
	(55,800)
Cash generated from operation	(25,540)
- Tax paid (W.N1)	(31,000)
<b>Cash used in operating activity</b>	<b>(56,540)</b>
<b><u>A. Cash flow from Investing Activity</u></b>	
Sale of land(W.N 2)	28,000
- Purchase of plant	9,000
- Purchase of goodwill	2,000
	(11,000)
<b>Cash flow from Investing Activity</b>	<b>17,000</b>
<b><u>A. Cash flow from financing Activity</u></b>	
Mortgage Loan	54,000
- Interest on loan(54,000 * 12/100 * 9/12)	(4,860)
<b>Cash flow from financing Activity</b>	<b>49,140</b>
<b>Increase in cash and cash equivalent (A+B+C)</b>	
[(56,540) + 17,000 + 49,140]	9,600
<b>Opening cash equivalent</b>	29,800
<b>Closing cash equivalent</b>	<b>39,400</b>

Working Notes :

Provision for Tax

Particulars	Amt.	Particulars	Amt.
To Bank A\C (Bal.Fig.)	31,000	By Balance B/d	15,000
To Balance c/d	2,000	By P&L A/c	18,000
	<u>33,000</u>		<u>33,000</u>

Land Account

Particulars	Amt.	Particulars	Amt.
To balance b/d	50,000	By Bank A/c (sale) Bal.fig	28,000
To P&L A/c (profit)	6,000	By Balance c/d	28,000
	<u>56,000</u>		<u>56,000</u>

Q3. Following are the Balance sheet of ABC Ltd. as at 31<sup>st</sup> March, 2014 and 2013:

**BALANCE SHEET** of ABC as at  
31<sup>st</sup> March, 2014 and 2013

Particulars	Note No.	31 <sup>st</sup> March, 2014	31 <sup>st</sup> March, 2013
<b>I. Equity and liabilities</b>			
<b>1. Shareholders fund</b>	1		
a. Share capital	2	40,00,000	34,00,000
b. Reserves and surplus		6,00,000	8,00,000
<b>2. Non-current liabilities :</b>			
Long term borrowing		4,00,000	2,00,000
<b>3. Current liabilities</b>			
a. Trade Payables		1,00,000	2,00,000
b. Other current liabilities	3	1,00,000	80,000
<b>Total</b>		52,00,000	46,80,000
<b>II. Assets</b>			
<b>1. Non-current Assets:</b>			
a. Fixed Assets :			
i. Tangible Assets		16,00,000	18,00,000
ii. Intangible Assets	4	12,00,000	10,00,000
b. Non current Assets		6,00,000	5,00,000
<b>2. Current Assets</b>			
a. Inventories		2,00,000	...
b. Trade Receivables		6,00,000	5,00,000
c. Cash and cash equivalent		10,00,000	8,80,000
<b>Total</b>		52,00,000	46,80,000

**Note to Accounts**

Particulars	31 <sup>st</sup> March, 2014	31 <sup>st</sup> March, 2013
<b>1. Reserves and surplus</b>		
Surplus i.e., Balance in statement of profit and loss	6,00,000	8,00,000
<b>2. Long term borrowings</b>		
9% debentures	4,00,000	2,00,000
<b>3. Other current liability</b>		
Outstanding Expenses	1,00,000	80,000
<b>4. Intangible Assets</b>		
Goodwill	12,00,000	10,00,000

**Additional Information :**

1. Depreciation of Rs.2,00,000 was provided on tangible assets during the year.
2. A machine costing Rs.50,000 (depreciation provided thereon Rs. 30,000) was sold for Rs.10,000 during the year.

You are required to prepare cash flow statement.

**Sol**

**Cash flow statement**  
**for the year ended 31, March, 2014**

Particulars	Amt.
<b>A. Cash flow from Operating Activity</b>	
Profit before Tax	(2,00,000)
+ Depreciation	2,00,000

Interest on Debentures	18,000	
Loss on sale of Machinery	10,000	2,28,000
<b>Operating Profit before WC Changes</b>		28,000
+ Dec. in C.A & Inc. in C.L		
Outstanding Expenses		20,000
		48,000
- Inc. in C.A & Dec. in C.L		
Inventory	2,00,000	
Trade Receivables	1,00,000	
Trade Payable	1,00,000	(4,00,000)
<b>Cash used in operating activity</b>		(3,52,000)
<b>A. Cash flow from investing activity</b>		
Sale of Machinery		10,000
- Purchase of Machinery (W.N.2)	20,000	
- Purchase of goodwill	2,00,000	(2,20,000)
- Purchase of Non current investment		(1,00,000)
<b>Cash used in investing activity</b>		(3,10,000)
<b>A. Cash flow from financing activity</b>		
Issue of share	6,00,000	
Debenture	2,00,000	8,00,000
- Interest on debentures		(18,000)
<b>Cash in flow from investing activity</b>		7,82,000
<b>A. Increase in cash equivalent(A+B+C)</b>		
[(3,52,000) + (3,10,000) + 7,82,000)		1,20,000
<b>+ Opening cash and cash equivalent</b>		8,80,000
<b>Closing cash and cash equivalent</b>		10,00,000

**Working Notes**

**Machinery A/c**

Particulars	Amt.	Particulars	Amt.
To balance b/d	18,00,000	By bank A/c	10,000
To Bank A/c (purchase) Bal.fig	20,000	By P&L A/c (loss)	10,000
		By Depreciation A/c	2,00,000
		By balance b/d	16,00,000
	18,20,000		18,20,000

Q4. Following are the balance sheet of Green Ltd. as on 31<sup>st</sup> March 2014 and 2013

Particulars	Note No.	31 <sup>st</sup> March, 2014	31 <sup>st</sup> March, 2013
<b>I. Equity and liabilities</b>			
<b>1. Shareholders fund</b>			
a. Share capital		4,00,000	3,00,000
b. Reserves and surplus	1	(5,000)	35,000
<b>2. Non-current liabilities :</b>			
Long-term borrowings	2	1,20,000	1,40,000
<b>3. Current liabilities</b>		45,000	15,000
<b>Total</b>		5,60,000	4,90,000
<b>II. Assets</b>			
<b>1. Non-current Assets</b>			
a. Fixed Assets(Tangible)		3,00,000	2,70,000

b. Non current investment	...	...
<b>2.Current Assets</b>	1,05,000	1,10,000
a. Trade Receivables	1,20,000	80,000
b. Cash and cash equivalent	30,000	20,000
c. Other current assets	5,000	10,000
<b>Total</b>	<b>5,60,000</b>	<b>4,90,000</b>

**Note to Accounts**

Particulars	31 <sup>st</sup> March,2014	31 <sup>st</sup> March,2013
<b>1. Reserves and surplus</b>		
Surplus i.e., Balance in statement of profit and loss	(15,000)	35,000
Securities premium reserve	10,000	
<b>2. Long term borrowings</b>		
10% debentures	1,20,000	1,40,000

Additional Information :

- Debentures were redeemed on 1<sup>st</sup> April 2013.
- During the year, a machine included in fixed asset Rs.60,000 was purchased and another having a book value of Rs.18,000 was sold at a loss of Rs.2,000.

Sol

**Cash flow statement  
for the year ended 31, March, 2014**

Particulars		Amt.
<b>A. Cash from operating activity</b>		
Profit after Tax		(50,000)
+ Transfer to reserve		.....
Loss before Tax		(50,000)
+ Depreciation (w.n.1)	12,000	
+ Loss on sale of machinery	2,000	
+ Interest on debentures	14,000	28,000
<b>Operating profit before WC changes</b>		(22,000)
+ Dec. in other current assets	5,000	
Current liability	30,000	35,000
		13,000
- Trade Receivable	40,000	(40,000)
<b>Cash used from operating Activity</b>		(27,000)
<b>A. Cash flow from financing activity</b>		
Issue of shares (1,00,000 + 10,000)		1,10,000
- Redemption of debentures		(20,000)
- Interest on debentures		(14,000)
<b>Cash flow from financing activity</b>		76,000
<b>A. Cash flow from investing activity</b>		
Sale of Machinery(w.n.1)	16,000	
Sale of Investment	5,000	21,000
- Purchase of Machinery		(60,000)
<b>Cash flow from investing activity</b>		(39,000)
<b>A. Increase in cash equivalent (A+B+C)</b>		

[(27,000) + 76,000 + (39,000)]	10,000
<b>+ Opening cash equivalent</b>	20,000
<b>Closing Cash and cash equivalent</b>	30,000

**Working Note**

**Machinery A/c**

<b>Particulars</b>	<b>Amt.</b>	<b>Particulars</b>	<b>Amt.</b>
To balance b/d	2,70,000	By bank A/c	16,000
To bank (purchase)	60,000	By P&L A/c	2,000
		By Depreciation (bal. fig.)	12,000
		By balance c/d	3,00,000
	<b>3,30,000</b>		<b>3,30,000</b>