9

CHAPTER

CASH FLOW STATEMENT

THEORETICAL QUESTIONS

Q. 1. Distinguish between: Cash Flow Statement & Fund Flow Statement
[June 2002 (10 Marks)]

Ans.

Following are the main points of difference between cash flow statement & fund flow statement:

Points	Cash Flow Statement	Funds Flow Statement
Meaning	A cash flow statement is a statement showing change in cash position from one period to another.	Fund flow statement is statement of sources & application of funds and statement of changes in working capital.
Concerned with	Cash flow statement is concerned with cash only, which is only a part of the working capital.	Funds flow statement is based on a wider concept of fund *i.e.* working capital.
Adjustments for prepaid & outstanding	In the case of cash flow statements adjustments requires for prepaid and outstanding items.	No such adjustments are needed in the case of funds flow statement.
Opening or closing balance	Cash flow statement is covers opening and closing balance of cash and cash equivalents.	Funds flow statement does not cover opening and closing balance of cash and cash equivalents. Such items are covered in statement called 'changes in working capital'.
Use	Cash flow statement is generally used as a tool of short-term financial analysis and cash planning purpose.	Funds flow statement is useful in planning sources and application of various funds.

Q. 2. Distinguish between: 'Cash' and 'Cash Equivalents' [Dec. 2008 (3 Marks)]

Or

Write short notes on: Cash, Cash Equivalents and Cash Flows
[June 2010 (3 Marks)]

Ans.

Cash: Cash comprises cash on hand and demand deposits with banks.

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 Flows: Cash flows are inflows and outflows of cash and cash equivalents.

Cash & Cash Equivalents: Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, 3 months or less from the date of acquisition.

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 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.

Q. 3. What are the benefits of cash flow statement? Mention the parties who are benefited from preparing cash flow statement. [Dec. 2009 (6 Marks)]

Ans. A cash flow statement is a statement showing change in cash position from one period to another. It presents a summary of cash flows from operating, investing and financing activities.

Example:

Cash balance as on 31.12.2023 – ₹20,000

Cash balance as on 31.12.2024 – ₹30,000

Thus, there has been an inflow of cash of ₹10,000 in the year 2024.

A projected cash flow statement: It presents a summary of projections of all the future cash flows from operating, investing and financing activities.

Benefits of cash flow statement: A cash flow statement is very useful in short range planning. It enables the management to plan the acquisition and utilization cash for a sound financial position. The importance and uses of cash flow analysis can be summarized in the following respects:

- It explains the reasons for inflows and outflows of cash.
- It is important tool for planning cash requirements and for controlling the cash position.
- It facilitates the management to plan and co-ordinate the financial operations properly.
- It helps for making plans for the future.
- It helps in ascertaining how much cash will be available to meet obligations to trade creditors, to pay bank loans and to pay dividend to the shareholders.
- It enables the management to invest it to some profitable investments.
- It helps to improve liquidity.

- Long-term lenders of funds can use the statement as a means of estimating the firm's ability to serve its debts.

Q. 4. Classify the following activities as (*i*) Operating activities (*ii*) Investing activities (*iii*) Financing activities (*iv*) Cash & cash equivalents:

(1) Royalty received

(2) Brokerage paid on purchase of shares

(3) Buy-back of own shares for cash

(4) Marketable securities having maturity period of 3 months

(5) Short-term deposits having maturity period of 4 months.

[June 2019 (5 Marks)]

Ans.

(1) **Royalty received:** Operating Activities

(2) **Brokerage paid on purchase of shares:** Investing Activities

(3) **Buy-back of own shares for cash:** Financing Activities

(4) **Marketable Securities having maturity period of 3 months:** Cash and Cash Equivalent

(5) **Short-term deposits having maturity period of 4 months:** Investing Activities

PROBLEMS & SOLUTIONS

Problem No. 1] The Amex Ltd. gives the following condensed balance sheets relating to years 2021 and 2022 and the profit and loss appropriation account for the year 2022:

Balance sheets of Amex Ltd. as on 31st March 2021 and 2022

EQUITY & LIABILITIES	**2021 (₹)**	**2022 (₹)**
Share capital	**5,00,000**	**6,00,000**
Reserves	**1,50,000**	**1,80,000**
Profit and loss account	**40,000**	**65,000**
Debentures	**3,00,000**	**2,50,000**
Creditors for goods	**1,70,000**	**1,60,000**
Provision for income-tax	**60,000**	**80,000**
	12,20,000	**13,35,000**
ASSETS	**(₹)**	**(₹)**
Gross block	**10,00,000**	**11,20,000**
Less: **Depreciation**	**(3,70,000)**	**(4,60,000)**
Net block	**6,30,000**	**6,60,000**
Stock in trade	**2,40,000**	**3,70,000**
Book debts	**2,50,000**	**2,30,000**
Cash in hand and at bank	**80,000**	**60,000**
Misc. expenditures:		
- Discount on issue of shares	**10,000**	**7,500**
- Preliminary expenses	**10,000**	**7,500**
	12,20,000	**13,35,000**

P & L Appropriation A/c for the year ended 31.3.2022

	₹		₹
To Transfer to reserves	**30,000**	**By Balance b/d**	**40,000**
To Interim dividend paid	**80,000**	**By Net Profit for current year**	
To Bal. carried to balance sheet	**65,000**		**1,35,000**
	1,75,000		**1,75,000**

You are required to prepare cash flow statement showing the following:

(*i*) Cash from operating activities

(*ii*) Cash from financing activities

(*iii*) Cash from investing activities

(*iv*) Net increase/decrease in cash **[Dec. 2007 (3 + 2 + 1 + 1 = 7 Marks)]**

Ans.

Cash Flow Statement (Indirect Method)

For the year ended 31.12.2009

Particulars	₹	₹
Cash flows from operating activities		
Net profit before working capital changes	3,10,000	
(+) Decrease in Current Assets		
- Book debts (debtors)	20,000	
(-) Increase in Current Assets		
- Stock in trade	(1,30,000)	
(+) Increase in Current Liabilities	-	
(-) Decrease in Current Liabilities		
- Creditors for goods	(10,000)	
Cash generated from operation	1,90,000	
Income-tax paid	(60,000)	
Cash before extra ordinary item	1,30,000	
Extra ordinary item	-	1,30,000
Cash flow from investing activities:		
Fixed assets purchased	(1,20,000)	(1,20,000)
Cash flows from financing activities:		
Issue of shares	1,00,000	
Redemption of debenture	(50,000)	
Dividend paid	(80,000)	(30,000)
Total (A) + (B) + (C)		(20,000)
Cash & cash equivalent at the beginning		80,000
Cash & cash equivalent at the end		60,000

Dr. Share Capital A/c Cr.

		By Balance b/d	5,00,000
To Balance c/d	6,00,000	By Bank A/c [*Bal. Fig.*]	1,00,000
	6,00,000		6,00,000

Dr. Reserve A/c Cr.

		By Balance b/d	1,50,000
To Balance c/d	1,80,000	By P & L Adj. A/c [*Bal. Fig.*]	30,000
	1,80,000		1,80,000

Dr. Debentures A/c Cr.

To Bank A/c *[Bal. Fig.]*	50,000	By Balance b/d	3,00,000
To Balance c/d	2,50,000		
	3,00,000		3,00,000

Dr. Provision For Tax A/c Cr.

To Bank A/c	60,000	By Balance b/d	60,000
To Balance c/d	80,000	By P & L Adj. A/c [*Bal. Fig.*]	80,000
	1,40,000		1,40,000

Dr. Fixed Assets A/c Cr.

To Balance b/d	10,00,000		
To Bank A/c [*Bal. Fig.*]	1,20,000	By Balance c/d	11,20,000
	11,20,000		11,20,000

Dr. Depreciation A/c Cr.

		By Balance b/d	3,70,000
To Balance c/d	4,60,000	By P & L Adj. A/c	90,000
	4,60,000		4,60,000

Dr. Discount on Issue of Shares A/c Cr.

To Balance b/d	10,000	By P & L Adj. A/c [*Bal. Fig.*]	2,500
		By Balance c/d	7,500
	10,000		10,000

Dr. Preliminary Expenses A/c Cr.

To Balance b/d	10,000	By P & L Adj. A/c [*Bal. Fig.*]	2,500
		By Balance c/d	7,500
	10,000		10,000

Dr. Interim Dividend A/c Cr.

To Bank A/c [*Bal. Fig.*]	80,000	By P & L Adj. A/c	80,000
	80,000		80,000

Dr. Profit & Loss Adjustment A/c Cr.

To Reserve	30,000	By Balance b/d	40,000
To Provision for tax	80,000	By Profit before working	3,10,000
To Depreciation	90,000	capital changes [*Bal. Fig.*]	
To Discount on shares	2,500		
To Preliminary expenses	2,500		
To Interim dividend	80,000		
To Balance c/d	65,000		
	3,50,000		3,50,000

Problem No. 2] Following are the summarized balance sheets of Gamma Ltd. as at 31st March, 2023 and 31st March, 2024:

EQUITY & LIABILITIES		
Shareholder's Funds		
Share capital	**4,50,000**	**4,50,000**
General reserve	**3,00,000**	**3,10,000**
Profit and loss account	**56,000**	**68,000**
Non-Current Liabilities		
Mortgage loan	**-**	**2,70,000**
Current Liabilities		
Creditors	**1,68,000**	**1,34,000**
Provision for taxation	**75,000**	**10,000**
	10,49,000	**12,42,000**
ASSETS	**(₹)**	**(₹)**
Non-Current Assets		
Plant and machinery	**4,00,000**	**3,20,000**
Investments	**50,000**	**60,000**
Current Assets		
Inventory	**2,40,000**	**2,10,000**
Debtors	**2,10,000**	**4,55,000**
Cash at bank	**1,49,000**	**1,97,000**
	10,49,000	**12,42,000**

Additional information:

(*i*) Investments costing ₹8,000 were sold during the year for ₹8,500.

(*ii*) Provision for taxation made during the year was ₹9,000.

(*iii*) During the year, a part of plant and machinery costing ₹10,000 was sold for ₹12,000, the profit was included in profit and loss account.

(*iv*) Dividend paid during the year amounted to ₹44,080.

You are required to prepare cash flow statement in new format as per Accounting Standard (Revised) by *indirect method*. [June 2008 (10 Marks)]

Ans.

Cash Flow Statement (Indirect Method)
For the year ended 31.3.2024

Particulars	₹	₹
Cash flows from operating activities		
Net profit before working capital changes	1,42,580	
(+) Decrease in Current Assets		
- Inventory	30,000	
(-) Increase in Current Assets		
- Debtors	(2,45,000)	
(+) Increase in Current Liabilities	-	
(-) Decrease in Current Liabilities		
- Creditors	(34,000)	
Cash generated from operation	(1,06,420)	
Income-tax paid	(74,000)	
Cash before extra ordinary item	(1,80,420)	
Extra ordinary item	-	(1,80,420)
Cash flow from investing activities		
Sale of plant & machinery	12,000	
Sale of investment	8,500	
Purchase of investment	(18,000)	2,500
Cash flows from financing activities		
Mortgage loan taken	2,70,000	
Dividend paid	(44,080)	2,25,920
Total (a) + (b) + (c)		48,000
Cash & cash equivalent at the beginning		1,49,000
Cash & cash equivalent at the end		1,97,000

Dr. Share Capital A/c Cr.

To Balance c/d	4,50,000	By Balance b/d	4,50,000
	4,50,000		4,50,000

Dr. General Reserve A/c Cr.

		By Balance b/d	3,00,000
To Balance c/d	3,10,000	By P & L Adj. A/c [*Bal. Fig.*]	10,000
	3,10,000		3,10,000

Dr. Provision For Tax A/c Cr.

To Bank A/c [*Bal. Fig.*]	74,000	By Balance b/d	75,000
To Balance c/d	10,000	By P & L Adj. A/c [*Bal. Fig.*]	9,000
	84,000		84,000

Dr. Mortgage Loan A/c Cr.

		By Balance b/d	-
To Balance c/d	2,70,000	By Bank A/c [*Bal. Fig.*]	2,70,000
	2,70,000		2,70,000

Dr. Plant & Machinery A/c Cr.

To Balance b/d	4,00,000	By Bank A/c	12,000
To P & L Adj. A/c	2,000	By Depreciation A/c	70,000
(*Profit on sale*)		[*Bal. Fig.*]	
		By Balance c/d	3,20,000
	4,02,000		4,02,000

Dr. Investment A/c Cr.

To Balance b/d	50,000	By Bank A/c	8,500
To P & L Adj. A/c	500	By Balance c/d	60,000
(*Profit on sale*)			
To Bank A/c [*Bal. Fig.*]	18,000		
	68,500		68,500

Dr. Dividend A/c Cr.

To Bank A/c	44,080	By P & L Adj. A/c [*Bal. Fig.*]	44,080
	44,080		44,080

Dr. Profit & Loss Adjustment A/c Cr.

To General Reserve	10,000	By Balance b/d	56,000
To Provision for tax	9,000	By Profit on sale of plant	2,000
To Depreciation	70,000	By Profit on investment	500
To Dividend	44,080	By Profit before working	1,42,580
To Balance c/d	68,000	capital changes [*Bal. Fig.*]	
	2,01,080		2,01,080

Problem No. 3] A company has provided you the following details:

Liabilities	**31.3.2022 (₹)**	**31.3.2023 (₹)**
Share capital	**70,000**	**74,000**
Debentures	**12,000**	**6,000**
Reserve for bad debts	**700**	**800**
Trade creditors	**10,360**	**11,840**
Profit and loss account	**10,040**	**10,560**
	1,03,100	**1,03,200**

Assets		
Cash	**9,000**	**7,800**
Debtors	**14,900**	**17,700**
Stock	**49,200**	**42,700**
Land	**20,000**	**30,000**
Goodwill	**10,000**	**5,000**
	1,03,100	**1,03,200**

Additional information:

- Dividend paid ₹3,500 and
- Land was purchased for ₹10,000.

Prepare a cash flow statement as per Accounting Standard–3 (Revised).

[June 2009 (9 Marks)]

Ans.

Cash Flow Statement (Indirect Method)

For the year ended 31.3.2023

Particulars	₹	₹
Cash flows from operating activities		
Net profit before working capital changes	9,120	
(+) Decrease in Current Assets		
- Stock	6,500	
(-) Increase in Current Assets		
- Debtors	(2,800)	
(+) Increase in Current Liabilities		
- Creditors	1,480	
(-) Decrease in Current Liabilities	-	
Cash generated from operation	14,300	
Income tax paid	-	
Cash before extra ordinary item	14,300	
Extra ordinary item	-	14,300
Cash flow from investing activities:		
Purchase of land	(10,000)	(10,000)
Cash flows from financing activities:		
Share capital issued	4,000	
Redemption of debentures	(6,000)	
Dividend paid	(3,500)	(5,500)
Total (A) + (B) + (C)		(1,200)
Cash & cash equivalent at the beginning		9,000
Cash & cash equivalent at the end		7,800

Dr. Share Capital A/c Cr.

		By Balance b/d	70,000
To Balance c/d	74,000	By Bank A/c [*Bal. Fig.*]	4,000
	74,000		74,000

Dr. Debenture A/c Cr.

Dr.	₹	Cr.	₹
To Bank A/c [*Bal. Fig.*]	6,000	By Balance b/d	12,000
To Balance c/d	6,000		
	12,000		12,000

Dr. Reserve For Bad Debts A/c Cr.

Dr.	₹	Cr.	₹
		By Balance b/d	700
To Balance c/d	800	By P & L Adj. A/c [*Bal. Fig.*]	100
	800		800

Dr. Land A/c Cr.

Dr.	₹	Cr.	₹
To Balance b/d	20,000		
To Bank A/c [*Bal. Fig.*]	10,000	By Balance c/d	30,000
	30,000		30,000

Dr. Goodwill A/c Cr.

Dr.	₹	Cr.	₹
To Balance b/d	10,000	By P & L Adj. A/c	5,000
		By Balance c/d	5,000
	10,000		10,000

Dr. Dividend A/c Cr.

Dr.	₹	Cr.	₹
To Bank A/c	3,500	By P & L Adj. A/c [*Bal. Fig.*]	3,500
	3,500		3,500

Dr. Profit & Loss Adjustment A/c Cr.

Dr.	₹	Cr.	₹
To Reserve for bad debts	100	By Balance b/d	10,040
To Goodwill	5,000	By Profit before working capital changes [*Bal. Fig.*]	9,120
To Dividend	3,500		
To Balance c/d	10,560		
	19,160		19,160

Problem No. 4] From the following balance sheets and information, prepare a cash flow statement of Rajat Ltd. for the year ended 31st March, 2022 as per Accounting Standard–3:

LIABILITIES	**31.3.2022**	**31.3.2021**
Shareholder's Funds	**(₹)**	**(₹)**
Equity share capital	**6,00,000**	**5,00,000**
10% Preference share capital	**-**	**2,00,000**
Capital redemption reserve	**1,00,000**	**-**
Capital reserve	**1,00,000**	**-**
General reserve	**1,00,000**	**2,50,000**
Profit and loss account	**70,000**	**50,000**
Non-Current Liabilities		
9% Debentures	**2,00,000**	**-**

Current Liabilities		
Sundry creditors	95,000	80,000
Bills payable	20,000	30,000
Liabilities for expenses	30,000	20,000
Provision for taxation	95,000	60,000
Proposed dividend	90,000	60,000
	15,00,000	12,50,000
ASSETS		
Land and building	1,50,000	2,00,000
Plant and machinery	7,65,000	5,00,000
Investments	50,000	80,000
Inventory	95,000	90,000
Bills receivable	65,000	70,000
Sundry debtors	1,75,000	1,30,000
Cash and bank	65,000	90,000
Preliminary expenses	10,000	25,000
Voluntary separation payments	1,25,000	65,000
	15,00,000	12,50,000

Additional information:

(*i*) A piece of land being sold out for ₹ 1,50,000 (cost ₹ 1,20,000) and the balance land was revalued. Capital reserve consisted of profit on sale and profit on revaluation of land and building.

(*ii*) On 1st April, 2021, a plant was sold for ₹ 90,000 (original cost ₹ 70,000 and written down value ₹ 50,000) and debentures worth ₹ 1 lakh were issued at par as part consideration for plant of ₹ 4.5 lakh acquired.

(*iii*) Part of the investments (cost ₹ 50,000) was sold for ₹ 70,000.

(*iv*) Pre-acquisition dividend received ₹ 5,000 was adjusted against cost of investment.

(*v*) Directors have proposed 15% dividend for the current year.

(*vi*) Voluntary separation cost of ₹ 50,000 was adjusted against general reserve.

(*vii*) Income-tax liability for the current year was estimated at ₹ 1,35,000.

(*viii*) Depreciation @ 15% has been written off from plant account, but no depreciation has been charged on land and building.

[Dec. 2010 (15 Marks)]

Ans.

Cash Flow Statement (Indirect Method)
For the year ended 31.3.2022

Particulars	₹	₹
Cash flows from operating activities		
Net profit before working capital changes	3,53,000	
(+) Decrease in Current Assets		
- Bills receivable	5,000	
(-) Increase in Current Assets		
- Inventory	(5,000)	
- Sundry debtors	(45,000)	
(+) Increase in Current Liabilities		
- Creditors_	15,000	
- Liabilities for expenses	10,000	
(-) Decrease in Current Liabilities		
- Bills payable_	(10,000)	
Cash generated from operation	3,23,000	
Income tax paid	(1,00,000)	
Cash before extra ordinary item	2,23,000	
Extra ordinary item		
- Voluntary separation payment paid	(1,10,000)	1,13,000
Cash flow from investing activities		
Land & building sold	1,50,000	
Plant & machinery sold	90,000	
Plant & machinery purchased	(3,50,000)	
Investment sold	70,000	
Investment purchased	(25,000)	
Pre-acquisition dividend received	5,000	(60,000)
Cash flows from financing activities		
Issue of share capital	1,00,000	
Redemption of preference share	(2,00,000)	
10% Debenture issued	1,00,000	
Proposed dividend paid	(60,000)	
Interest on debenture paid	(18,000)	(78,000)
Total (A) + (B) + (C)		(25,000)
Cash & cash equivalent at the beginning		90,000
Cash & cash equivalent at the end		65,000

Dr. Equity Share Capital A/c Cr.

To Balance c/d	6,00,000	By Balance b/d	5,00,000
		By Bank A/c [*Bal. Fig.*]	1,00,000
	6,00,000		6,00,000

Dr. 10% Preference Share Capital A/c Cr.

To Bank A/c [*Bal. Fig.*]	2,00,000	By Balance b/d	2,00,000
	2,00,000		2,00,000

Dr. Capital Redemption Reserve A/c Cr.

		By Balance b/d	-
To Balance c/d	1,00,000	By General Reserve A/c	1,00,000
	1,00,000		1,00,000

Dr. Capital Reserve A/c Cr.

		By Balance b/d	-
		By Land & Building A/c (*Profit on sale*)	30,000
To Balance c/d	1,00,000	By Land & Building A/c (*Profit on revaluation*)	70,000
	1,00,000		1,00,000

Dr. General Reserve A/c Cr.

To Voluntary Separation Payment A/c	50,000	By Balance b/d	2,50,000
To Capital Redemption Reserve A/c	1,00,000		
To Balance c/d	1,00,000		
	2,50,000		2,50,000

Dr. 9% Debentures A/c Cr.

		By Balance b/d	-
		By Plant & Machinery A/c	1,00,000
To Balance c/d	2,00,000	By Bank A/c	1,00,000
	2,00,000		2,00,000

Dr. Provision For Taxation A/c Cr.

To Bank A/c	1,00,000	By Balance b/d	60,000
To Balance c/d	95,000	By P & L Adj. A/c [*Bal. Fig.*]	1,35,000
	1,95,000		1,95,000

Dr. Proposed Dividend A/c Cr.

To Bank A/c	60,000	By Balance b/d	60,000
To Balance c/d	90,000	By P & L Adj. A/c [*Bal. Fig.*]	90,000
	1,50,000		1,50,000