

# Chapter 4

## Cash Flow Statement

# Introduction

- ▶ Cash is the most liquid asset of a business. All business transactions ultimately result into cash inflow or cash outflow. Hence, a statement that shows cash flow is considered to be an important one. It can be said, therefore, that cash is both the beginning and the end of the business operations. The business should have sufficient cash on hand, so that the liabilities can be paid as and when they fall due.
- ▶ The cash on hand should not be excessive, otherwise the cash would remain idle, reducing the overall profitability. Looking to the importance of liquidity, the cash statements assume all the more significance for management. There are two such statements viz. cash budget for the definite future time period, which shows what would be the expected cash position during the next year. The second is the cash flow statement, which is a historical statement and shows what was the cash inflow and cash outflow during the last year and what was the actual cash balance on hand at the end of the last year.
- ▶ The fund flow statement shows the changes in the net working capital, while the cash flow statement shows the inflow and outflow of cash only. The statement shows the amount of cash received and cash paid due to each transaction of business. The total cash inflow is added to the opening balance of cash and the total cash outflow deducted therefrom. This gives the final cash balance.

# Cash Flow Statement

- ▶ A statement showing Inflow of Cash and Outflow of Cash during the last year and as a result the balance of cash at the end of the year, is known as "Cash Flow Statement." This statement helps management to know the actual liquid position or position of cash on hand and also to ascertain whether the business is able to get enough cash to meet the liabilities as and when they arise.
- ▶ The Institute of Chartered Accountants of India has issued Accounting Standard - 3 for preparing Cash Flow Statement. According to amendment to Companies Act, it has been made compulsory for all companies to implement all Accounting Standards issued by this Institute. Hence, now all companies issuing their annual accounts include a Cash Flow Statement in their Reports.
- ▶ According to this standard, the Cash Inflows and Outflows are to be shown under three headings:
  - A. Cash flow from Operating Activities (e.g., profit).
  - B. Cash flow from Investing Activities (e.g., purchase of fixed asset).
  - C. Cash flow from Financing Activities (e.g., issue of shares).

# Cash Flow Statement

- ▶ The cash balance in the beginning and at the end to be shown in this statement includes both Cash (cash on hand + cash at Bank) and Cash Equivalent. Here, Cash Equivalent means short term, highly liquid investments, which are readily convertible into cash and which are subject to little risk of changes in value.
- ▶ This statement is prepared by two methods. One by Direct Method, in which cash flow is shown from sources of cash inflows and cash outflows: cash received from Debtors and cash paid to Creditors. The second method is Indirect Method, in which cash flow is found out by making necessary adjustments in net profit. In our examples also we will use Indirect Method in which we would find out cash flow from operating activities by making adjustments in net profit.

# Cash Flow Statement

(for the year ended on 31-3-\_\_\_)

Particulars	₹	₹
Net Profit (Difference) (Current year - Previous year)		----
<b>(A) Cash Flow from Operating Activities:</b>		
(i) Add: Non-cash items:		
Depreciation	---	
Intangible assets written off	---	
Fictitious assets written off	---	
Provision for taxation	---	
Appropriation of Profit e.g., proposed dividend	---	
Loss on sale of fixed assets or Investment	---	----
Less: Profit on sale of Investment or fixed assets	---	
Amount written back from General Reserve	---	(----)
Cash flow from profit		----
(ii) Changes in Working Capital:		
Add: Decrease in Current Assets	---	
Increase in Current Liabilities	---	----
Less: Increase in Current Assets	---	
Decrease in Current Liabilities	---	(----)
Cash flow from operations		----

Particulars	₹	₹
Cash flow from operations		----
(iii) Less: Income-tax paid		(-----)
<b>Net Cash flow from Operating Activities</b>		----
<b>(B) Cash Flow from Investing Activities:</b>		
Add: Sale of Fixed Assets	---	
Sale of Investments	---	
Interest and Dividend Received	---	----
Less: Purchase of Fixed Assets	---	
Purchase of Investments	---	(-----)
<b>Net Cash flow from Investing Activities</b>		----
<b>(C) Cash Flow from Financing Activities:</b>		
Add: Issue of Shares or Debentures	---	
Loan taken	---	----
Less: Repayment of Loan	---	
Interest and Dividend Paid	---	
Redemption of Shares or Debentures	---	(-----)
<b>Net Cash flow from Financing Activities</b>		----
Net Increase/Decrease in Cash and Cash Equivalent (A + B + C)		----
Add: Opening Cash Balance		----
<b>Closing Cash Balance</b>		-----

1. The following is the Balance Sheet of Reliance Plastics Ltd. as on 31-3-2018 and 31-3-2019 :

**Balance Sheets**

Particulars	Note	31-3-2018 Rs.	31-3-2019 Rs.
<b>I. EQUITY AND LIABILITIES :</b>			
<b>(1) Shareholders' Funds :</b>			
(a) Share Capital : Equity Share Capital		1,00,000	1,20,000
(b) Reserves and Surplus :			
General Reserve		14,000	18,000
Profit and Loss A/c		16,000	13,000
<b>(2) Current Liabilities :</b>			
(a) Trade Payables : Creditors		8,000	5,400
(b) Ohter Current Liabilities :			
Outstanding Expenses		1,200	900
(c) Short Term Provisions :			
Provision For Taxation		16,000	18,000
Total		1,55,200	1,75,300

**II. ASSETS :****(1) Non-Current Assets :****(a) Fixed Assets :****(i) Tangible Assets :**

Land

40,000

36,000

Building

37,000

56,000

**(ii) Intangible Assets : Goodwill**

12,000

10,000

**(b) Non-Current Investments**

10,000

11,000

**(2) Current Assets :****(a) Inventories : Stock**

30,000

25,400

**(b) Trade Receivables : Debtors**

19,600

21,700

**(c) Cash and Cash Equivalents :**

Bank balance

6,600

15,200

Total

1,55,200

1,75,300

**Additional Informations :**

- (1) A piece of land was sold at Rs. 4,000.
- (2) The provision for depreciation against building was Rs. 7,000.
- (3) Provision was made for income-tax at Rs. 19,000 during the year.
- (4) Dividend of Rs. 10,000 was paid during the year.



# Cash Flow Statement

(for the year ended on 31-3-2019)

Particulars	₹	₹
Net Profit (Difference) (Current year - Previous year)		(3,000)
<b>(A) Cash Flow from Operating Activities:</b>		
(i) Add: Non-cash items:		
Goodwill written off	2,000	
Transfer to General Reserve	4,000	
Depreciation provision	7,000	
Provision for taxation	19,000	
Proposed Dividend	10,000	42,000
Cash flow from profit		39,000
(ii) Changes in Working Capital:		
Add: Decrease in Stock (30,000 - 25,400)	4,600	4,600
Less: Increase in Debtors (19,600 - 21,700)	2,100	
Decrease in Creditors (8,000 - 5,400)	2,600	
Decrease in Outstanding Expenses (1,200 - 900)	300	(5,000)
Cash flow from operations		38,600

Particulars	₹	₹
Cash flow from operations		38,600
(iii) Less: Income-tax paid		(17,000)
<b>Net Cash flow from Operating Activities</b>		<b>21,600</b>
<b>(B) Cash Flow from Investing Activities:</b>		
Add: Sale of Land	4,000	4,000
Less: Purchase of Building	26,000	
Purchase of Investment	1,000	(27,000)
<b>Net Cash flow from Investing Activities</b>		<b>(23,000)</b>
<b>(C) Cash Flow from Financing Activities:</b>		
Add: Issue of Equity share capital	20,000	20,000
Less: Payment of Dividend	10,000	(10,000)
<b>Net Cash flow from Financing Activities</b>		<b>10,000</b>
Net Increase/Decrease in Cash and Cash Equivalent (A + B + C)		8,600
[21,600 + (23,000) + 10,000]		6,600
Add: Opening Cash/Bank Balance		
<b>Closing Cash Balance</b>		<b>15,200</b>

**2.** From the following informations, you are required to prepare a Cash Flow Statement of the C.P. Stores Ltd. for the year ending 31st March, 2019 :  
**Balance Sheets**

Particulars	Note	31-3-2018 Rs.	31-3-2019 Rs.
<b>EQUITY AND LIABILITIES :</b>			
<b>(1) Shareholders' Funds :</b>			
(a) Share Capital		70,000	70,000
(b) Reserves and Surplus : Profit and Loss A/c		7,000	10,000
<b>(2) Non-Current Liabilities :</b>			
(a) Long Term Borrowings : Secured Loan		—	40,000
<b>(3) Current Liabilities :</b>			
(a) Trade Payables : Creditors		14,000	39,000
(c) Other Current Liabilities : Provision for taxation		1,000	3,000
Total		92,000	1,62,000
<b>ASSETS :</b>			
<b>(1) Non-Current Assets :</b>			
(a) Fixed Assets :			
(i) Tangible Assets : Plant - Machinery		50,000	91,000
<b>(2) Current Assets :</b>			
(a) Inventories : Stock		15,000	40,000
(b) Trade Receivables : Debtors		5,000	20,000
(c) Cash and Cash Equivalents : Cash		20,000	7,000
(d) Other Current Assets : Prepaid Expenses		2,000	4,000
Total		92,000	1,62,000

**Profit and Loss Account**  
*for the year ending on 31-3-2019*

Particulars	Rs.	Particulars	Rs.
To Opening Stock	15,000	By Sales	1,00,000
" Purchases	98,000	" Closing Stock	40,000
" Gross Profit - c/d	27,000		
	1,40,000		1,40,000
To General Expenses	11,000	By Gross Profit - b/d	27,000
" Depreciation	8,000		
" Provision for Taxation	4,000		
" Net Profit - c/d	4,000		
	27,000		27,000
To Dividend	1,000	By Balance b/d	7,000
" Balance c/d	10,000	" Net Profit	4,000
	11,000		11,000

# Cash Flow Statement of the C. P. Stores Ltd.

(for the year ended 31-3-2012)

Particulars	₹	₹
Net Profit (Difference) (Current year - Previous year) (10,000 - 7,000)		3,000
<b>(A) Cash Flow from Operating Activities:</b>		
(i) Add: Non-cash items:		
Depreciation	8,000	
Provision for Taxation	4,000	
Proposed Dividend	1,000	
		13,000
Less: Non-cash incomes:		
	--	--
Cash flow from profit		16,000
(ii) Changes in Working Capital:		
Add: Increase in Creditors (14,000 - 39,000)	25,000	25,000
Less: Increase in Stock (15,000 - 40,000)	25,000	
Increase in Debtors (5,000 - 20,000)	15,000	
Increase in Prepaid Expenses (2,000 - 4,000)	2,000	(42,000)
Cash flow from operations		(1,000)

Particulars	₹	₹
Cash flow from operations		(1,000)
(iii) Less: Income-tax paid		(2,000)
<b>Net Cash flow from Operating Activities</b>		<b>(3,000)</b>
<b>(B) Cash Flow from Investing Activities:</b>		
Add:	--	--
Less: Purchase of Plant and Machinery	49,000	(49,000)
<b>Net Cash flow from Investing Activities</b>		<b>(49,000)</b>
<b>(C) Cash Flow from Financing Activities:</b>		
Add: Loan Borrowed	40,000	40,000
Less: Payment of Dividend	1,000	(1,000)
<b>Net Cash flow from Financing Activities</b>		<b>39,000</b>
Net Increase/Decrease in Cash and Cash Equivalent (A + B + C) [(3,000) + (49,000) + 39,000]		(13,000)
Add: Opening Cash/Bank Balance		20,000
<b>Closing Cash Balance</b>		<b>7,000</b>

3. The following are the Balance Sheets of A Company Ltd. as on 31-3-2018 and 31-3-2019 :

Particulars	Note	31-3-2018 Rs.	31-3-2019 Rs.
<b>I EQUITY AND LIABILITIES :</b>			
(1) Shareholders' Funds :			
(a) Share Capital		3,94,000	4,60,000
(b) Reserves and Surplus :			
Profit and Loss A/c		2,96,000	6,24,000
(2) Non-Current Liabilities :			
(a) Long Term Borrowings : Bank Loan		1,74,000	—
(3) Current Liabilities :			
(a) Trade Payables : Creditors		5,02,900	5,96,000
(b) Short Term Provisions :			
Provision for Taxation		1,30,000	3,44,000
<b>Total</b>		<b>14,96,900</b>	<b>20,24,000</b>
<b>II. ASSETS :</b>			
(1) Non-Current Assets :			
(a) Fixed Assets Less Depreciation		7,20,000	12,00,000
(b) Non-Current Investments :			
Investments		22,500	20,000
(2) Current Assets :			
(a) Inventories : Stock		2,85,000	3,92,000
(b) Trade Receivables : Debtors		1,81,400	2,80,000
(c) Cash and Cash Equivalents :			
Bank balance		2,60,000	90,000
(d) Other Current Assets :			
Prepaid Expenses		28,000	42,000
<b>Total</b>		<b>14,96,900</b>	<b>20,24,000</b>

The following further information is available from the records :

(1) The balance of Profit & Loss Account is as under :

	Rs.
Balance (1-4-2018)	2,96,000
Net profit for the year	<u>3,97,000</u>
	6,93,000
<i>Less</i> : Dividend	<u>69,000</u>
Balance (31-3-2019)	<u><u>6,24,000</u></u>

(2) On 31-3-2019, the accumulated depreciation of fixed assets was Rs. 4,00,000 and on 31-3-2018 Rs. 3,60,000. Machinery costing Rs. 40,000 which was one-half depreciated was discarded and written off in 2018-2019.

(3) Investments costing Rs. 10,000 was sold during the year 2018-'19 for Rs. 9,600 and Government securities of the face value of Rs. 8,000 were purchased during the year for Rs. 7,500.

Prepare a Cash Flow Statement for the year 2018-2019.



# Cash Flow Statement of the A Company Ltd.

(for the year ended 31-3-2012)

Particulars	₹	₹
Net Profit (Difference) (C.Y. - P.Y.) (6,24,000 - 2,96,000)		3,28,000
<b>(A) Cash Flow from Operating Activities:</b>		
(i) Add: Non-cash items:		
Provision for taxation (3,44,000 - 1,30,000)	2,14,000	
Proposed Dividend	69,000	
Depreciation (40,000 + 20,000)	60,000	
Loss on Machinery W/o	20,000	
Loss on Sale of Investments	400	
Cash flow from profit		3,63,400
		6,91,400
(ii) Changes in Working Capital:		
Add: Increase in Creditors (5,02,900 - 5,96,000)	93,100	
		93,100
Less: Increase in Stock (2,85,000 - 3,92,000)	1,07,000	
Increase in Debtors (1,81,400 - 2,80,000)	98,600	
Increase in Prepaid Expenses (28,000 - 42,000)	14,000	(2,19,600)
Cash flow from operations		5,64,900

Particulars	₹	₹
Cash flow from operations		5,64,900
(iii) Less: Income-tax paid		---
<b>Net Cash flow from Operating Activities</b>		<b>5,64,900</b>
<b>(B) Cash Flow from Investing Activities:</b>		
Add: Sale of Investment	9,600	9,600
Less: Purchase of Fixed Assets	5,60,000	
Purchase of Govt. Securities	7,500	(5,67,500)
<b>Net Cash flow from Investing Activities</b>		<b>(5,57,900)</b>
<b>(C) Cash Flow from Financing Activities:</b>		
Add: Issue of Share Capital (4,60,000 - 3,94,000)	66,000	66,000
Less: Payment of Bank Loan	1,74,000	
Payment of Dividend	69,000	(2,43,000)
<b>Net Cash flow from Financing Activities</b>		<b>(1,77,000)</b>
Net Increase/Decrease in Cash and Cash Equivalent (A + B + C)		(1,70,000)
[5,64,900 + (5,57,900) + (1,77,000)]		2,60,000
Add: Opening Cash/Bank Balance		
<b>Closing Cash/Bank Balance</b>		<b>90,000</b>

3. The following are the Balance Sheets of Niyati Ltd. as on 31-3-2019 and 31-3-2020 : 20

Liabilities	31-3-19 ₹	31-3-20 ₹	Assets	31-3-19 ₹	31-3-20 ₹
Equity share capital	6,00,000	8,00,000	Goodwill	2,30,000	1,80,000
10% Red. pref. share capital	3,00,000	2,00,000	Land & Building	4,00,000	3,40,000
General Reserve	80,000	1,40,000	Machinery	1,60,000	4,00,000
Profit & Loss A/c.	60,000	96,000	Debtors	3,20,000	4,00,000
Creditors	1,10,000	1,66,000	Stock	1,54,000	2,18,000
Bills Payable	40,000	32,000	Bills Receivable	40,000	60,000
Provision for taxation	80,000	1,00,000	Cash & Bank	50,000	36,000
Proposed Dividend	84,000	1,00,000			
	<b>13,54,000</b>	<b>16,34,000</b>		<b>13,54,000</b>	<b>16,34,000</b>

**Additional Information :**

- (1) During the year 2019-20 depreciation written off was ₹ 20,000 on machinery and ₹ 60,000 on Land and Building.
- (2) Interim dividend paid during the year 2019-20 amounted to ₹ 40,000.
- (3) Taxation paid during the year 2019-20 was ₹ 70,000.

From the above informations, prepare Cash Flow Statement as per Accounting Standard No. 3.

# Cash Flow Statement of Niyati Ltd.

(for the year ended 31-3-2020)

Particulars	₹	₹
Net Profit (Difference) (C.Y. - P.Y.) [96,000 - 60,000]		36,000
<b>(A) Cash Flow from Operating Activities:</b>		
(i) Add: Non-cash items:		
Goodwill written off	50,000	
Transfer to General Reserve	60,000	
Proposed Dividend	1,00,000	
Depreciation on Machinery	20,000	
Depreciation on Land-Building	60,000	
Interim Dividend	40,000	
Provision for taxation	90,000	4,20,000
Cash flow from profit		4,56,000
(ii) Changes in Working Capital:		
Add: Increase in Creditors	56,000	
Less: Increase in Debtors	80,000	
Increase in Stock	64,000	
Increase in Bills Receivable	20,000	
Decrease in Bills Payable	8,000	(1,72,000)
Cash flow from operations		3,40,000

Particulars	₹	₹
Cash flow from operations		3,40,000
(iii) Less: Income-tax paid		(70,000)
<b>Net Cash flow from Operating Activities</b>		<b>2,70,000</b>
<b>(B) Cash Flow from Investing Activities:</b>		
Add:		
Less: Purchase of Machinery	2,60,000	(2,60,000)
<b>Net Cash flow from Investing Activities</b>		<b>(2,60,000)</b>
<b>(C) Cash Flow from Financing Activities:</b>		
Add: Issue of Equity Share Capital	2,00,000	2,00,000
Less: Redeemed Preference Share Capital	1,00,000	
Payment of Proposed Dividend	84,000	
Payment of Interim Dividend	40,000	
		(2,24,000)
<b>Net Cash flow from Financing Activities</b>		<b>(24,000)</b>
Net Increase/Decrease in Cash and Cash Equivalent (A + B + C)		(14,000)
[2,70,000 + (2,60,000) + (24,000)]		
Add: Opening Cash/Bank Balance		50,000
<b>Closing Cash/Bank Balance</b>		<b>36,000</b>

Particulars	Note	31-03-2020	31-03-2021
		₹	₹
<b>I. Equity and Liabilities :</b>			
(1) Shareholder's Funds :			
(a) Share Capital :			
Equity Share Capital of ₹ 100 each fully paid up		12,60,000	21,00,000
(b) Reserves and Surplus :			
General Reserve		6,30,000	4,20,000
Profit and Loss A/c.		6,21,600	5,79,600
(2) Non-Current Liabilities :			
Long Term Borrowings :			
12% Debentures		4,20,000	5,88,000
(3) Current Liabilities :			
(a) Trade payables : Creditors		6,16,000	6,44,000
(b) Other Current Liabilities :			
Outstanding expenses		77,000	28,000
Bank Overdraft		2,31,000	—
(c) Short Term Provisions :			
Provision for Taxation		2,52,000	3,36,000
<b>Total :</b>		<b>41,07,600</b>	<b>46,95,600</b>

<b>II. Assets :</b>			
<b>(1) Non-Current Assets :</b>			
<b>(a) Fixed Assets :</b>			
<b>(i) Tangible Assets :</b>			
Plant & Machinery	14,70,000	18,90,000	
Land & Building	12,60,000	11,34,000	
<b>(ii) Intangible Assets :</b>			
Goodwill	4,20,000	3,36,000	
<b>(b) Non-Current Investments :</b>			
Investments	3,36,000	3,15,000	
<b>(c) Other Non-Current Assets :</b>			
Preliminary expenses	75,600	50,400	
Discount on Debentures	—	4,200	
<b>(2) Current Assets :</b>			
(a) Inventories : Stock	1,68,000	3,36,000	
(b) Trade Receivables : Debtors	3,78,000	4,62,000	
(c) Cash and Cash Equivalents :			
Cash Balance	—	1,68,000	
<b>Total :</b>	<b>41,07,600</b>	<b>46,95,600</b>	

**Additional Informations :**

- (1) Investments of ₹ 84,000 were sold at a profit of 20% on selling price.
- (2) The company has issued bonus shares at 3 : 1 from General Reserve as on 1-4-2020.
- (3) During the year new debentures are issued at 5% discount.
- (4) During the year Tax and Dividend were paid ₹ 2,31,000 and ₹ 2,26,800 respectively.
- (5) During the year machine worth ₹ 2,10,000 has been sold out at loss of 20%.
- (6) During the year depreciation written off on Plant & Machinery ₹ 1,47,000 and Land & Building ₹ 1,26,000.

From the above informations, prepare Cash Flow Statement as per Accounting Standard-3.

# Cash Flow Statement of Maharth Ltd.

(for the year ended 31-3-2019)

Particulars	₹	₹
Net Profit (Difference) (C.Y. - P.Y.) [5,79,600 - 6,21,600]		(42,000)
<b>(A) Cash Flow from Operating Activities:</b>		
(i) Add: Non-cash items:		
Goodwill written off	84,000	
Preliminary Expenses written off	25,200	
Proposed Dividend	2,26,800	
Loss on sale of Machine	42,000	
Depreciation on Plant & Machinery	1,47,000	
Depreciation on Land-Building	1,26,000	
Discount on Debentures written off	4,200	
Provision for taxation	3,15,000	9,70,200
Less: Profit on Sale of Investment	21,000	(21,000)
Cash flow from profit		9,07,200
(ii) Changes in Working Capital:		
Add: Increase in Creditors	28,000	
		28,000
Less: Increase in Stock	1,68,000	
Increase in Debtors	84,000	
Decrease in Outstanding Expenses	49,000	(3,01,000)
Cash flow from operations		6,34,200



Particulars	₹	₹
Cash flow from operations		6,34,200
(iii) Less: Income-tax paid		(2,31,000)
<b>Net Cash flow from Operating Activities</b>		<b>4,03,200</b>
<b>(B) Cash Flow from Investing Activities:</b>		
Add: Sale of Investment	1,05,000	
Sale of Machine	1,68,000	2,73,000
Less: Purchase of Plant & Machinery	7,77,000	
Purchase of Investment	63,000	(8,40,000)
<b>Net Cash flow from Investing Activities</b>		<b>(5,67,000)</b>
<b>(C) Cash Flow from Financing Activities:</b>		
Add: Issue of Debentures	1,59,600	
Issue of Equity Share Capital	6,30,000	7,89,600
Less: Payment of Dividend	2,26,800	(2,26,800)
<b>Net Cash flow from Financing Activities</b>		<b>5,62,800</b>
Net Increase/Decrease in Cash and Cash Equivalent (A + B + C)		
[4,03,200 + (5,67,000) + 5,62,800]		3,99,000
Add: Opening Cash/Bank Balance (Bank Overdraft)		(2,31,000)
<b>Closing Cash/Bank Balance</b>		<b>1,68,000</b>