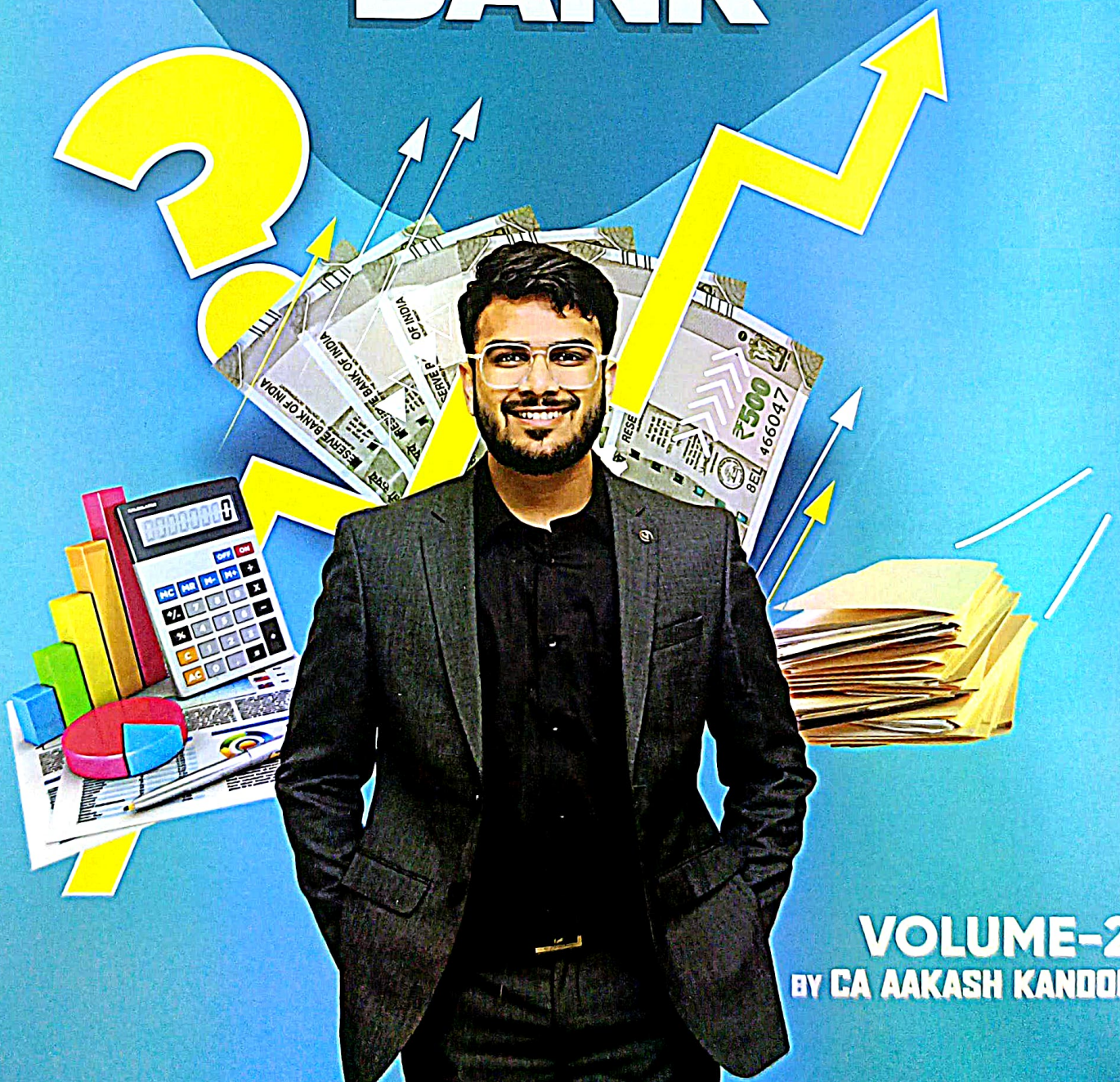


CA INTER ADVANCED ACCOUNTING

QUESTION BANK



VOLUME-2
BY CA AAKASH KANDOI

Chapter 29

CASH FLOW STATEMENT (AS 3)

NB Pg. No.

? Question 1 (RTP Jan'25)

Classify the following activities as (a) Operating Activities, (b) Investing Activities, (c) Financing Activities (d) Cash Equivalents.

- (a) Purchase of Machinery
- (b) Proceeds from issuance of equity share capital
- (c) Cash Sales.
- (d) Proceeds from long-term borrowings.
- (e) Cheques collected from Trade receivables.
- (f) Cash receipts from Trade receivables.
- (g) Trading Commission received.
- (h) Purchase of investment.
- (i) Redemption of Preference Shares.
- (j) Cash Purchases.
- (k) Proceeds from sale of investment
- (l) Purchase of goodwill.
- (m) Cash paid to suppliers.
- (n) Interim Dividend paid on equity shares.
- (o) Wages and salaries paid.
- (p) Proceed from sale of patents.
- (q) Interest received on debentures held as investment.
- (r) Interest paid on Long-term borrowings.
- (s) Office and Administration Expenses paid
- (t) Manufacturing Overheads paid.
- (u) Dividend received on shares held as investments.
- (v) Rent Received on property held as investment.
- (w) Selling and distribution expense paid.
- (x) Income tax paid
- (y) Dividend paid on Preference shares.
- (z) Underwritings Commission paid.
- (aa) Rent paid.
- (bb) Brokerage paid on purchase of investments.
- (cc) Bank Overdraft
- (dd) Cash Credit
- (ee) Short-term Deposits
- (ff) Highly liquid Marketable Securities (without risk of change in value)
- (gg) Refund of Income Tax received.

Solution

- (a) Operating Activities: c, e, f, g, j, m, o, s, t, w, x, aa & gg.
 (b) Investing Activities: a, h, k, l, p, q, u, v, bb & ee.
 (c) Financing Activities: b, d, i, n, r, y, z, cc & dd.
 (d) Cash Equivalent: ff.

Question 2

NB Pg. No.

X Ltd. purchased debentures of ₹10 lacs of Y Ltd., which are redeemable within three months. How will you show this item as per AS 3 while preparing cash flow statement for the year ended on 31st March, 20X1?

Solution

As per AS 3 on 'Cash flow Statement', cash and cash equivalents consists of cash in hand, balance with banks and short-term, highly liquid investments*. If investment, of ₹10 lacs, made in debentures is for short-term period then it is an item of 'cash equivalents'.

However, if investment of ₹10 lacs made in debentures is for long-term period then as per AS 3, it should be shown as cash flow from investing activities.

Question 3

NB Pg. No.

Classify the following activities as per AS 3 Cash Flow Statement:

- Interest paid by financial enterprise
- Tax deducted at source on interest received from subsidiary company
- Deposit with Bank for a term of two years
- Insurance claim received towards loss of machinery by fire
- Bad debts written off

Solution:

- Interest paid by financial enterprise
Cash flows from operating activities
- TDS on interest received from subsidiary company
Cash flows from investing activities
- Deposit with bank for a term of two years
Cash flows from investing activities
- Insurance claim received against loss of fixed asset by fire
Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'
- Bad debts written off

It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

Question 4

NB Pg. No.

Prepare Cash Flow from Investing Activities of M/s. Creative Furnishings Limited for the year ended 31-3-20X1.

Particulars	₹
Plant acquired by the issue of 8% Debentures	1,56,000

Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(TDS of ₹ 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred ₹ 9,600)	84,000

Solution
Cash Flow Statement from Investing Activities of
M/s Creative Furnishings Limited for the year ended 31-03-20X1

Cash generated from investing activities	₹	₹
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	(4,85,000)	
Interest received on investments (gross value)	76,200	
TDS deducted on interest	(8,200)	
Sale of plant	<u>74,400</u>	
Cash used in investing activities (before extra ordinary item)		(1,97,700)
Extraordinary claim received for loss of plant		<u>49,600</u>
Net cash used in investing activities (after extra ordinary item)		<u>(1,48,100)</u>

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and, therefore, not considered for preparing cash flow from investing activities.
2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.

Question 5
NB Pg. No.

Mayuri Ltd. acquired Plant and Machinery for ₹ 25 lakhs. During the same year, it also sold Furniture and Fixtures for ₹ 4 lakhs. Can the company disclose, Net Cash Outflow towards purchase of Fixed Assets ₹ 21 lakhs (i.e., 25 lakhs – 4 lakhs) in the Cash Flow Statement?

Solution:

As per AS 3, Cash Flow Statements, an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except in the case of:

- (1) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and
- (2) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

In the given case, since the purchase of Plant and Machinery and disposal of Furniture and Fixtures do not fall in the criteria of exception mentioned above, the same should be presented on a gross basis as an outflow of ₹ 25 lakhs and an inflow of ₹ 4 lakhs. Presentation of net cash outflow of ₹ 21 lakhs is not permitted as per AS 3.

Question 6

NB Pg. No.

How would the following cash flows be classified in accordance with AS 3?

1. Corporate Income Tax paid amounting to ₹ 70 lakhs during the reporting period.
2. Payment of advance tax ₹ 8,75,000 out of which ₹ 75,000 was towards capital gains arising on account of sale of assets during the reporting period.
3. Fixed Deposits withdrawn by customers of State Bank of India ₹ 3 crores.

Solution:

As per AS 3, the given cash flows shall be recorded as under:

Corporate Income Tax paid amounting to ₹ 70 lakhs during the reporting period.	₹ 70 lakhs: Operating Cash Flows
Payment of advance tax ₹ 8,75,000 out of which ₹ 75,000 was towards capital gains arising on account of sale of assets during the reporting period.	₹ 8,00,000: Operating Cash Flows ₹ 75,000: Investing Cash Flows
Fixed Deposits withdrawn by customers of State Bank of India ₹ 3 crores.	₹ 3 crores: Operating Cash Flows for State Bank of India.

Question 7 (RTP Sep'24)

NB Pg. No.

Money Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

- Loans and Advances given to the following and interest earned on them:
 - 1) to suppliers
 - 2) to employees
 - 3) to its subsidiaries companies
- Investment made in subsidiary Smart Ltd. and dividend received
- Dividend paid for the year

Discuss in the context of AS 3 Cash Flow Statement.

Solution:

Treatment as per AS 3 'Cash Flow Statement'

- Loans and advances given and interest earned
 - 1) to suppliers – Cash flows from operating activities
 - 2) to employees – Cash flows from operating activities
 - 3) to its subsidiary companies – Cash flows from investing activities
- Investment made in subsidiary company and dividend received – Cash flows from investing activities
- Dividend paid for the year – Cash flows from financing activities

Question 8

NB Pg. No.

From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-20X2 as per AS 3.

Particulars	Amount (₹)
Balance as per the Bank Statement	25,000

Cheque issued but not presented in the Bank	15,000
Short Term Investment in liquid equity shares of ABC Limited	50,000
Fixed Deposit created on 01-11-20X1 and maturing on 15-04-20X2	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund on 01-03-20X2 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India	\$ 1,000
(Conversion Rate: On the day of deposit ₹ 69/USD as on 31-03-20X2 ₹ 70/USD)	

Solution:

Computation of Cash and Cash Equivalents as on 31st March, 20X2

	₹
Cash balance with bank (₹ 25,000 less ₹ 15,000)	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.20X2	1,00,000
Bank balance in foreign currency account (\$1,000 x ₹ 70)	70,000
	1,80,000

Note: Short term investment in liquid equity shares and fixed deposit will not be considered as cash and cash equivalents.

Question 9 (RTP Nov 18, Nov'22) (MTP March '23)

NB Pg. No.

The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarised as follows:

	2018 (₹)	2017 (₹)
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade Payables	8,000	5,000
Income tax payable	3,000	2,000
Declared Dividends	4,000	2,000
Property, Plant & Equipment (at W.D.V) :	1,44,000	1,17,000
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	1,17,000

The Profit and Loss account for the year ended 31st March, 2018 disclosed:

	₹
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building ₹ 1,000.
2. Depreciation on Furniture & Fixtures for the year ₹ 2,000.
3. Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.
4. Purchase investments for ₹ 6,000.
5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.
6. You are required to prepare Cash Flow Statement as per AS-3 using indirect method. **(15Marks)**

Solution:

Harry Ltd.

Cash Flow Statement for the year ended 31st March, 2018

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000 + 2,000 + 5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	

Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

* Dividend declared for the year ended 31st March, 2017 amounting ₹ 2,000 must have been paid in the year 2017-18. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2017-18.

Working Notes:

1. Calculation of Income taxes paid

	₹	
Income tax expense for the year	3,000	
Add: Income tax liability at the beginning of the year	2,000	
		5,000
Less: Income tax liability at the end of the year	(3,000)	
		2,000

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	—	2,000
	36,000	32,000
Less: W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

? Question 10 (RTP May '22)

NB Pg. No.

From the following details relating to the accounts of Omega Ltd. prepare Cash Flow Statement for the year ended 31st March, 2021:

	31.03.2021(₹)	31.03.2020 (₹)
Share Capital	14,00,000	11,20,000
General Reserve	5,60,000	3,50,000
Profit and Loss Account	1,40,000	84,000
Debentures	2,80,000 -	
Provision for taxation	1,40,000	98,000
Trade payables	9,80,000	11,48,000
Plant and Machinery	9,80,000	7,00,000
Land and Building	8,40,000	5,60,000
Investments	1,40,000 -	
Trade receivables	7,00,000	9,80,000
Inventories	5,60,000	2,80,000
Cash in hand and at Bank	2,80,000	2,80,000

1. Depreciation @ 20% was charged on the opening value of Plant and Machinery.

2. At the year end, one old machine costing 70,000 (WDV 28,000) was sold for ₹ 49,000; Purchase of machinery was also made at the year end.
3. ₹ 70,000 was paid towards Income tax during the year.
4. Land & Building is not subject to any depreciation; Expenses on renovation of building amount ₹ 2,80,000 were incurred during the year. Prepare Cash Flow Statement.

Solution:

Omega Ltd.

Cash Flow Statement for the year ended 31st March, 2021

Cash Flow from Operating Activities		
Increase in balance of Profit and Loss Account	₹56,000	
Provision for taxation	1,12,000	
Transfer to General Reserve	2,10,000	
Depreciation	1,40,000	
Profit on sale of Plant and Machinery	(21,000)	
Operating Profit before Working Capital changes	4,97,000	
Increase in Inventories	(2,80,000)	
Decrease in Trade receivables	2,80,000	
Decrease in Trade payables	(1,68,000)	
Cash generated from operations	3,29,000	
Income tax paid	(70,000)	
Net Cash from operating activities		2,59,000
Cash Flow from Investing Activities		
Purchase of plant & machinery	(4,48,000)	
Expenses on building	(2,80,000)	
Increase in investments	(1,40,000)	
Sale of old machine	49,000	
Net Cash used in investing activities		(8,19,000)
Cash Flow from Financing activities		
Proceeds from issue of shares	2,80,000	
Proceeds from issue of debentures	2,80,000	
Net cash from financing activities		5,60,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,80,000
Cash and Cash equivalents at the end of the year		2,80,000

Working Notes: Provision for taxation account

	₹		₹
To Cash (Tax Paid)	70,000	By Balance b/d	98,000
To Balance c/d	1,40,000	By Profit and Loss A/c	1,12,000
		(Balancing figure)	
	2,10,000		2,10,000

Plant and Machinery account

	₹		₹
To Balance b/d	7,00,000	By Depreciation	1,40,000
To Profit and Loss A/c (profit on sale of machine)	21,000	By Cash (sale of machine)	49,000
To Cash (Balancing figure)	4,48,000	By Balance c/d	9,80,000
	11,69,000		11,69,000

Question 11
NB Pg. No.

Ryan Ltd provides you the following information at the year-end, March 31, 20X1:

	₹	₹
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
		1,78,000
Operating Expenses (including Depreciation Expense of ₹ 37,000)		(1,47,000)
		31,000
Other Income / (Expenses):		
Interest Expense paid		(23,000)
Interest Income received		6,000
Gain on Sale of Investments		12,000
Loss on Sale of Plant		(3,000)
		(8,000)
		23,000
Income tax		(7,000)
		16,000

Information available:

	31st March 20X1	31st March 20X0
	₹	₹
Plant	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Inventory	1,44,000	1,10,000
Trade receivables	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000

Bonds	2,95,000	2,45,000
Trade payables	50,000	43,000
Outstanding liabilities	12,000	9,000
Income taxes payable	3,000	5,000

Analysis of selected accounts and transactions during 20X0-X1

1. Purchased investments for ₹ 78,000.
2. Sold investments for ₹ 1,02,000. These investments cost ₹ 90,000.
3. Purchased plant assets for ₹ 1,20,000.
4. Sold plant assets that cost ₹ 10,000 with accumulated depreciation of ₹ 2,000 for ₹ 5,000.
5. Issued ₹ 1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 20X1.
6. Repaid ₹ 50,000 of bonds at face value at maturity.
7. Issued 15,000 shares of ₹ 10 each.
8. Paid cash dividends ₹ 8,000.

Prepare Cash Flow Statement as per AS-3 (Revised), using indirect method.

Solution

Ryan Ltd.
Cash Flow Statement
for the year ending 31st March, 20X1

	₹	₹
Cash flows from operating activities		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	
Operating profit before working capital changes	68,000	
Decrease in trade receivables	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in trade payables	7,000	
Increase in outstanding liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
Net cash generated from operating activities		47,000
Cash flows from investing activities		
Purchase of plant	(1,20,000)	
Sale of plant	5,000	
Purchase of investments	(78,000)	
Sale of investments	1,02,000	
Interest received	6,000	

Net cash used in investing activities		(85,000)
Cash flows from financing activities		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
Net cash from financing activities		69,000
Net increase in cash and cash equivalents		31,000
Cash and cash equivalents at the beginning of the period		15,000
Cash and cash equivalents at the end of the period		46,000

Note: Significant non-cash adjustments: Issued ₹ 1,00,000 of bonds at face value for acquisition of plant on 31st March, 20X1.

***Working Note:**

	₹
Income taxes paid:	
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	5,000
	12,000
Less: Income tax liability at the end of the year	(3,000)
	9,000

? Question 12

NB Pg. No.

The balance sheets of Sun Ltd. as at 31st March 20X1 and 20X0 were as:

Particulars	Notes	20X1 ₹	20X0 ₹
Equity and Liabilities			
1 Shareholder's funds			
(a) Share capital	1	60,000	50,000
(b) Reserve & surplus	2	5,000	4,000
2 Current liabilities			
1. Trade Payables		4,000	2,500
2. Other current liabilities	3	-	1,000
(c) Short term provision (provision for tax)		1,500	1,000
Total		70,500	58,500
Assets			
1 Non-current assets	4		
(a) Property, Plant & Equipment		39,500	29,000
2 Current assets			
1. Current investments		2,000	1,000
2. Inventories		17,000	14,000
3. Trade receivables		8,000	6,000

4. Cash & cash equivalents	5	4,000	8,500
		70,500	58,500

Notes to accounts

		20X1 ₹	20X0 ₹
1	Share Capital		
	Equity Shares of ₹10 each	<u>60,000</u>	<u>50,000</u>
2	Reserve & surplus		
	Profit and Loss Account	<u>5,000</u>	<u>4,000</u>
3	Other current liabilities		
	Dividend Payable	=	<u>1,000</u>
4	Property, plant and equipment (at WDV)		
	Building	10,000	10,000
	Fixtures	17,000	11,000
	Vehicles	<u>12,500</u>	<u>8,000</u>
	Total	<u>39,500</u>	<u>29,000</u>
5	Cash and cash equivalents		
	Cash and Bank	<u>4,000</u>	<u>8,500</u>

The profit and loss statement for the year ended 31st March, 20X1 disclosed:

Particulars	₹
Profit before tax	4,500
Tax expense: Current tax	<u>(1,500)</u>
Profit for the year	3,000
Declared dividend	<u>(2,000)</u>
Retained Profit	<u>1,000</u>

Further information is available:

	Fixtures ₹	Vehicles ₹
Depreciation for the year	1,000	2,500
Disposals:		
Proceeds on disposal of vehicles	—	1,700
Written down value	—	<u>(1,000)</u>
Profit on disposal		700

Prepare a Cash Flow Statement for the year ended 31st March, 20X1.

Solution

Sun Ltd.
Cash Flow Statement
for the year ended 31st March, 20X1

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 – 1,000)	(700)	
Operating profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations	3,800	
Income taxes paid (W.N.1)	(1,000)	
Net cash generated from operating activities		2,800
Cash flows from investing activities		
Sale of vehicles	1,700	
Purchase of current investments	(1,000)	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
Net cash used in investing activities		(14,300)
Cash flows from financing activities		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(3,000)	
Net cash generated from financing activities		7,000
Net decrease in cash and cash equivalents		(4,500)
Cash and cash equivalents at beginning of period		8,500
(See Note)		
Cash and cash equivalents at end of period		4,000
(See Note)		
Note to the Cash Flow Statement		
Cash and Cash Equivalents		
	31.3.20X1	31.3.20X0
Bank and Cash	4,000	8,500
Cash and cash equivalents	4,000	8,500

Working Notes:

	₹
1. Income taxes paid	
Income tax expense for the year	1,500
Add: Income tax liability at the beginning of the year	1,000
	2,500
Less: Income tax liability at the end of the year	(1,500)
	1,000

2.	Dividend paid		
	Declared dividend for the year		2,000
	Add: Amount payable at the beginning of the year		1,000
			3,000
	Less: Amount payable at the end of the year		-
			3,000
3.	Property, plant and equipment acquisitions		
		Fixtures	Vehicles
		₹	₹
	W.D.V. at 31.3.20X1	17,000	12,500
	Add back:		
	Depreciation for the year	1,000	2,500
	Disposals	—	1,000
		18,000	16,000
	Less: W.D.V. at 31.12.20X0	(11,000)	(8,000)
	Acquisitions during 20X0-20X1	7,000	8,000

Note: Current investments may not be readily convertible to a known amount of cash and may not be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

Question 13 (RTP May 23)

NB Pg. No.

Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions		8,000	5,000
(Provision for taxation)			
Total		7,53,000	3,90,000
(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000
Total		7,53,000	3,90,000

Notes to Accounts

Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
1. Share capital	4,10,000	2,00,000
(a) Equity share capital	1,50,000	1,00,000
(b) Preference share capital	5,60,000	3,00,000
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	(10,000)	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

- Dividend paid during the year ₹ 10,000
- Depreciation charges during the year ₹ 40,000;

Solution:
Fox Ltd.
Cash Flow Statement for the year ended 31st March 2021

	₹	₹
Cash flows from operating activities		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
Cash used in operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in operating activities		(25,000)
Cash flows from investing activities		
Purchase of PPE	(2,10,000)	
Net cash used in investing activities		(2,10,000)
Cash flows from financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	

Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

*Provision for tax of last year considered to be paid in the current year.

Working Note:

	₹
Property, plant and equipment acquisitions	
W.D.V. at 31.3.2021	3,50,000
Add back:	
Depreciation for the year	40,000
	3,90,000
Less: W.D.V. at 31.12.2020	1,80,000
Acquisitions during 2020-2021	2,10,000

Question 14 (MTP Nov'21, April 23 Sep '23) (PYQ Nov '20) (RTP May 20) NB Pg. No.

The following figures have been extracted from the books of Manan Limited for the year ended on 31.3.2022. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.

- Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs:
 - Depreciation on Property, Plant & Equipment ₹ 7;50 lakhs;
 - Discount on issue of Debentures written off ₹ 45,000;
 - Interest on Debentures paid ₹ 5,25,000;
 - Book value of investments ₹ 4;50 lakhs (Sale of Investments for ₹ 4,80,000);
 - Interest received on investments ₹ 90,000;
- Compensation received ₹ 1,35,000 by the company in a suit filed;
- Income tax paid during the year ₹ 15,75,000;
- 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2021 at a premium of 5%.
- Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30/3/2022 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
- Dividend for FY 2020-21 on preference shares were paid at the time of redemption.
- Dividend on Equity shares paid on 31.01.2022 for the year 2020-2021 ₹ 7;50 lakhs and interim dividend paid ₹ 2;50 lakhs for the year 2021-2022.
- Land was purchased on 02/4/2021 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration;
- Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 01.04.2021	As on 31.3.2022
	₹	₹
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650



	3,94,450	16,950
Cash in hand	3,16,500	3,16,950
Trade payables	1,12,500	1,22,700
Outstanding expenses		

(10 Marks)

Solution:
Manan Ltd.
Cash Flow Statement for the year ended 31st March, 2022

	Rs.	Rs.
Cash flow from Operating Activities		30,00,000
Net profit before income tax and extraordinary items:		
Adjustments for:	7,50,000	
Depreciation on Property, plant and equipment	45,000	
Discount on issue of debentures	5,25,000	
Interest on debentures paid	(90,000)	
Interest on investments received		12,00,000
Profit on sale of investments		42,00,000
Operating profit before working capital changes		
Adjustments for:	(1,77,000)	
Increase in inventory	7,350	
Decrease in trade receivable	450	
Increase in trade payables		
Increase in outstanding expenses	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid		(15,75,000)
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,35,000
Net cash flow from operating activities		26,01,000
Cash flow from Investing Activities;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	36,000	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	(10,00,000)	
Net cash used in financing activities		(35,12,500)
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2021		3,94,450
Cash and cash equivalents as on 31.3.2022		16,950

Question 15
NB Pg. No.

Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 20X1:

Cash Flow (Abstract)

Inflows	₹	Outflows	₹
Opening balance:		Payment for Account Payables	90,000
Cash	10,000	Salaries and wages	25,000
Bank	70,000	Payment of overheads	15,000
Share capital – shares issued	5,00,000	Property, plant and equipment acquired	4,00,000
Collection on account of Trade Receivables	3,50,000	Debentures redeemed	50,000
Sale of Property, plant and equipment	70,000	Bank loan repaid	2,50,000
		Taxation	55,000
		Dividends	1,00,000
		Closing balance:	
		Cash	5,000
		Bank	10,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 20X1 in accordance with Accounting Standard 3.

Solution
Cash Flow Statement for the year ended 31.3.20X1

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	
Income tax paid	(55,000)	
Net cash generated from operating activities		1,65,000
Cash flow from investing activities		
Payment for purchase of Property, plant and equipment	(4,00,000)	
Proceeds from sale of Property, plant and equipment	70,000	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Dividends paid	(1,00,000)	
Net cash used in financing activities		1,00,000

Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

Question 16 (RTP May'21)

NB Pg. No.

The following are the extracts of Balance Sheet and Statement of Profit and Loss of Supriya Ltd.

Extract of Balance Sheet

		Particulars	Notes	2021 (Rs;'000)	2020 (Rs;'000)
		Equity and Liabilities			
1		Shareholder's funds			
	(a)	Share capital	1	500	200
2		Non- current liabilities			
	(a)	Long term loan from bank		—	250
3		Current liabilities			
	(a)	Trade Payables		1,000	3,047
		Assets			
1		Non-current assets			
	(a)	Property, Plant and Equipment		230	128
2		Current assets			
	(a)	Trade receivables		2,000	4,783
	(b)	Cash & cash equivalents (Cash balance)		212	35

Extract of Statement of Profit and Loss

	Particulars	Notes	2021 (Rs;'000)	2020 (Rs;'000)
I	Expenses:			
	Employee benefits expense		69	25
	Other expenses	2	115	110
II	Tax expense:			
	Current tax (paid during year)		243	140

Notes to accounts

		2021 (Rs;'000)	2020 (Rs;'000)
1	Share Capital		
	Equity Shares of Rs.10 each, fully paid up	500	200
2	Other expenses		
	Overheads	115	110

Prepare Cash Flow Statement of Supriya Ltd. for the year ended 31st March, 2021 in accordance with AS-3 using direct method. All transactions were done in cash only. There were no outstanding/prepaid expenses as on 31st March, 2020 and on 31st March, 2021. Ignore depreciation. Dividend amounting Rs. 80,000 was paid during the year ended 31st March, 2021.