2

PREPARATION OF FINANCIAL STATEMENTS OF COMPANIES

UNIT 1: PREPARATION OF FINANCIAL STATEMENTS OF COMPANIES

BASIC CONCEPTS

While preparing the final accounts of a company the following should be kept in mind:

- Requirements of Schedule VI;
- Other statutory requirements;
- Accounting Standards issued by the Institute of Chartered Accountants of India on different accounting matters (AS-1 to AS-32);
- Statements and Guidance Notes issued by the Institute of Chartered Accountants of India;

which are necessary for understanding the accounting treatment / valuation / disclosure suggested by the ICAI]

Question 1

The Articles of Association of S Ltd. provide the following:

(i) That 20% of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

(a in paying 14% on cumulative preference shares.

(b) in paying 20% dividend on equity shares.

(c) one-third of the balance available as additional dividend on preference shares and 2/3 as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 12% on preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% cumulative participating preference shares of Rs. 100 each fully paid and 70,000 equity shares of Rs. 10 each fully paid up.

The profit for the year 2012 was Rs. 10,00,000 and balance brought from previous year Rs. 80,000. Provide Rs. 31,200 for depreciation and Rs. 80,000 for taxation before making other appropriations. Prepare Profit and Loss Account –below the line. ***(November, 2008)***

Answer

Profit and Loss Account –(below the line)

for the year ended 2012

	Particulars	**Rs.**
a	Profit	10,00,000
b	Expenses:	
	Depreciation and amortization expense	(31,200)
	Total expenses	(31,200)
c	**Profit before tax**	**9,68,800**
d	Provision for tax	(80,000)
e	**Profit (Loss) for the period**	**8,88,800**
	Balance of Profit and Loss account brought forward	80,000
f	**Total**	**9,68,800**
g	**Appropriations**	
	Transfers to Reserves	(1,77,760)
	Proposed preference dividend (1,82,000 + 93,450)	(2,75,450)
	Proposed equity dividend (1,40,000 + 1,86,900)	(3,26,900)
	Bonus to employees (14,000 + 18,690)	(32,690)
	Total	**(8,12,800)**
h	**Balance carried to Balance sheet (f-g)**	**1,56,000**

Working Note:

Balance of amount available for Preference and Equity shareholders and Bonus for Employees	*Rs.*
Credit Side	9,68,800
Less: Dr. side [1,77,760 + 1,82,000+1,40,000+14,000 + 1,56,000]	6,69,760
	2,99,040

Suppose remaining balance will be = x

Suppose preference shareholders will get share from remaining balance = $x \times \frac{1}{3} = \frac{1}{3}x$

Equity shareholders will get share from remaining balance = $x \times \frac{2}{3} = \frac{2}{3}x$

Bonus to Employees = $\frac{2}{3}x \times \frac{10}{100} = \frac{2}{30}x$

Now, $\frac{2}{3}x + \frac{1}{3}x + \frac{2}{30}x = 2{,}99{,}040$

$32x = 89{,}71{,}200$

$x = 89{,}71{,}200/32 = \text{Rs.}2{,}80{,}350$

Share of preference shareholders - Rs. 2,80,350 $\times \frac{1}{3}$ = Rs.93,450

Share of equity shareholders - Rs.2,80,350 $\times \frac{2}{3}$ = Rs.1,86,900

Bonus to employees - Rs.2,80,350 $\times \frac{2}{30}$ = Rs.18,690

Question 2

Dividend on partly paid shares. ***(May, 2002)***

Answer

In the case of partly paid-up shares, the dividend is payable either on the nominal, called-up or the paid-up amount of shares, depending on the provisions in this regard that there may be in the articles of the company. In the absence of any such provisions, Table A should be applicable. In such a case the amount of dividend payable will be calculated on the amount paid-up on the shares, and while doing so, the dates on which the amounts were paid must be taken into account. Calls paid in advance do not rank for payment of dividend. A company may if so authorised by its articles, pay a dividend in proportion to the amount paid on each share, where a larger amount is paid on some shares than on others (Section 93 of the Companies Act, 1956). But where the articles are silent and Table A has been excluded, the amount of dividend payable will have to be calculated on the nominal amount of shares. It should, however, be noted that according to Clause 88 of Table A dividends are to be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but if and so long as nothing is paid upon any of the shares of the company, dividends may be declared and paid according to the nominal amount of the shares.

Question 3

The balance sheet of XYZ Ltd. as at 31st December, 2011 inter alia includes the following:

		Rs.
50,000	*8% Preference shares of Rs. 100 each Rs. 70 paid up*	*35,00,000*

1,00,00	*Equity shares of Rs. 100 each fully paid up*	*1,00,00,000*
	Securities premium	*5,00,000*
	Capital redemption reserve	*20,00,000*
	General reserve	*50,00,000*

Under the terms of their issue, the preference shares are redeemable on March 31, 2012 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 50,000 equity shares of Rs. 100 each at Rs. 20 being payable on application, Rs. 35 (including premium) on allotment and the balance on January 1, 2012. The issue was fully subscribed and allotment made on March 1, 2012. The monies due on allotment were received by March 30, 2012.

The preference shares were redeemed after fulfilling the necessary conditions of Section 80 of the Companies Act, 1956. The company decided to make the minimum utilisation of general reserve.

You are asked to pass the necessary journal entries and show the relevant extracts from the Balance Sheet as on March 31, 2012 with the corresponding figures as on 31st December, 2011.

(November, 1999)

Answer

XYZ Ltd.

Journal Entries

		Dr.	*Cr.*
		Rs. '000	Rs. '000
8% Preference Share Final Call Account	Dr.	15,00	
To 8% Preference Share Capital Account			15,00
(Being the final call made on 50,000 preference shares @ Rs. 30 each to make them fully paid up)			
Bank Account	Dr.	15,00	
To 8% Preference Share Final Call Account			15,00
(Being the final call amount received on 50,000 preference shares @ Rs. 30 each)			
Bank Account	Dr.	10,00	
To Equity Share Application Account			10,00
(Being the application money received on 50,000 equity shares @ Rs. 20 per share)			
Equity Share Application Account	Dr.	10,00	

To Equity Share Capital Account			10,00
(Being the application money on 50,000 equity shares transferred to equity share capital account vide Board's resolution dated...)			
Equity Share Allotment Account	Dr.	17,50	
To Equity Share Capital Account			12,50
To Securities Premium Account			5,00
(Being the amount due on 50,000 equity shares @ Rs. 35 per share [including premium Rs.10 vide Board's resolution dated...)			
Bank Account	Dr.	17,50	
To Equity Share Allotment Account			17,50
(Being the allotment money received on 50,000 equity shares @ Rs. 35 per share)			
8% Preference Share Capital Account	Dr.	50,00	
Premium on Redemption of Preference Shares Account	Dr.	2,50	
To Preference Shareholders Account			52,50
(Being the amount payable to preference share holders on redemption)			
Preference Shareholders Account	Dr.	52,50	
To Bank Account			52,50
(Being the payment made to preference shareholders)			
Securities Premium Account	Dr.	2,50	
To Premium on Redemption of Preference Shares Account			2,50
(Being the premium payable on redemption of preference shares charged to share premium account)			
General Reserve	Dr.	27,50	
To Capital Redemption Reserve			27,50
(Being the amount transferred to capital redemption reserve on redemption of preference shares for the balance not covered by proceeds of fresh issue of shares)			

Balance Sheet of XYZ Limited

As at 31st March, 2012 (after redemption of preference shares)

(Relevant extracts)

		Particulars	Notes	Rs. ('000)	Rs. ('000)
		Equity and Liabilities		**as on 31.03.12**	**as on 31.03.11**
1		**Shareholders' funds**			
	a	Share capital	1	12,250	13,500
	b	Reserves and Surplus	2	7,750	7,500

The cash and bank balance will be decreased by Rs. 10,00,000 on 31.3.2011 as compared to the balance on 31.12.2010.

Notes to accounts

			Rs. ('000)
			as on 31.03.12
1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid-up		
	1,00,000 equity shares of Rs. 100 each, fully paid up	10,000	10,000
	50,000 equity shares of Rs. 100 each, Rs. 45 called up and paid up	2,250	-
	Preference share capital		
	50,000, 8% Redeemable preference shares of Rs. 100 each, Rs. 70 called-up and paid-up (redeemed on 31st March, 2010)	-	3,500
	Total	**12,250**	**13,500**
2.	**Reserves and Surplus**		
	Capital redemption reserve	4,750	2,000
	Securities premium account	750	500
	General reserve	2,250	5,000
	Total	**7,750**	**7,500**

Working Notes :

		Rs. '000
(i)	Transfer to capital redemption reserve	
	Nominal value of preference shares redeemed (Rs. 100 × 50,000)	50,00
	Less : Proceeds of fresh equity issue [(Rs. 20 + 25) × 50,000)]	22,50
	Transfer to capital redemption reserve	27,50
(ii)	Capital redemption reserve as on 31.3.2012	
	Balance as on 31.12.2011	20,00
	Add : Transfer from general reserve	27,50
	Balance as on 31.3.2012	47,50
(iii)	General reserve as on 31.3.2012	
	Balance as on 31.12.2011	50,00
	Less : Transfer to capital redemption reserve	27,50
	Balance as on 31.3.2012	22,50
(iv)	Securities premium as on 31.3.2012	
	Balance as on 31.12.2011	5,00
	Add : Amount received @ Rs. 10 per share on fresh issue of 50,000 equity shares	5,00
		10,00
	Less : Premium on redemption of preference shares	2,50
	Balance as on 31.3.2012	7,50
(v)	Change in cash and bank balance	
	Receipts : (31.12.2011 - 31.3.2012)	
	Application money on 50,000 equity shares @ Rs. 20 per share	10,00
	Allotment money on 50,000 equity shares @ Rs. 35 per share	17,50
	Final call on 50,000, 8% Preference shares @ Rs. 30 per share	15,00
		42,50
	Payments:	
	Amount paid to preference shareholders on redemption	52,50
	Reduction in cash and bank balance	10,00

Question 4

Provisional Balance Sheet of P Ltd. as at 31st March, 2012 was as under:

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Share Capital			*Fixed Assets (at cost less*	
50,000 equity shares of Rs. 10			*depreciation)*	*7,00,000*
each, Rs. 7 per share called up	*3,50,000*		*Cash & Bank balances*	*2,00,000*
Less : Calls in arrear on 10,000			*Other Current assets*	*6,00,000*
shares @ Rs. 2 per share	*20,000*			
	3,30,000			
Add : Calls in advance on				
40,000 shares @				
Rs. 3 per share	*1,20,000*	*4,50,000*		
20,000, 10% Redeemable preference				
shares of Rs. 10 each, fully paid up		*2,00,000*		
Reserves & Surplus :				
General Reserve		*3,00,000*		
Profit & Loss Account		*2,70,000*		
Current Liabilities		*2,80,000*		
		15,00,000		*15,00,000*

Calls in arrear are outstanding for 6 months. Calls in advance were also received 6 months back. Interest @ 10% p.a. on calls in advance and 12% p.a. on calls in arrear are allowed/charged.

The Board of Directors have recommended that:

(i) Dividend for the year 2011-12 be allowed @ 20% on equity shares.

(ii) Money on calls in advance be refunded and partly paid equity shares be converted as fully paid up by declaring bonus dividend to shareholders.

(iii) The preference shares, which are redeemable at a premium of 10% any time after 31st March, 2012 may be redeemed by issue of 10% Debentures of Rs. 100 in cash.

Show Journal Entries to give effect to the above proposals including payment and receipt of cash and redraft the Profit and Loss Account and Balance Sheet of P Ltd. ***(November, 2001)***

Answer

Journal Entries

P Ltd.

		Dr.	*Cr.*
		Rs.	*Rs.*
Interest on Calls in Arrear A/c	Dr.	1,200	
To Profit & Loss A/c			1,200
(Being interest @ 12 % p.a. on Rs. 20,000 for 6 months credited to Profit and Loss Account)			
Bank A/c	Dr.	21,200	
To Calls in Arrear A/c			20,000
To Interest on Calls in Arrear A/c			1,200
(Being interest on calls in arrear received)			
Profit & Loss A/c	Dr.	6,000	
To Interest on Calls in Advance A/c			6,000
(Being interest @ 10% on Rs. 1,20,000 for 6 months allowed on calls in advance)			
Profit & Loss A/c	Dr.	90,000	
To Preference Dividend			20,000
To Equity Dividend			70,000
(Being dividend @ 10% on Preference share capital & 20% on Equity share capital proposed)			
Profit & Loss A/c	Dr.	1,50,000	
To Bonus to Equity Shareholders A/c			1,50,000
(Being bonus dividend declared)			
Share Final Call A/c	Dr.	1,50,000	
To Equity Share Capital A/c			1,50,000
(Being final call made @ Rs. 3 on 50,000 shares)			
Bonus to Equity shareholders A/c	Dr.	1,50,000	
To Share Final Call A/c			1,50,000
(Being adjustment of bonus dividend against final call)			

Calls in Advance A/c	Dr.	1,20,000	
Interest on Calls in Advance A/c	Dr.	6,000	
To Bank A/c			1,26,000
(Being amount of calls in advance along with interest refuned)			
Bank A/c	Dr.	2,20,000	
To 10% Debentures A/c			2,20,000
(Being 2,200 Debentures of Rs.100 each issued in cash)			
Profit & Loss A/c	Dr.	20,000	
To Premium on Redemption of Preference shares A/c			20,000
(Being premium payable on redemption)			
Profit & Loss A/c	Dr.	5,200	
General Reserve A/c	Dr.	1,94,800	
To Capital Redemption Reserve A/c			2,00,000
(Transfer to capital redemption reserve)			
Preference Share Capital A/c	Dr.	2,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	20,000	
To Preference Shareholders A/c			2,20,000
(Amount due on redemption of preference shares)			
Preference Shareholders A/c	Dr.	2,20,000	
To Bank A/c			2,20,000
(Amount paid to preference shareholders)			

Profit & Loss Account of P Ltd.

for the year ended 31st March, 2012

	Particulars	Notes no.	Rs.
a	**Profit**		**270,000**
	Other Income	5	1,200
b	**Expenses**		
	Other Expenses	6	(6,000)
c	**Profit before tax**		**265,200**

d	**Appropriations**	
	Premium on redemption	(20,000)
	Preference Dividend	(20,000)
	Equity Dividend	(70,000)
	Bonus Dividend	(150,000)
	Capital Redemption Reserve	(5,200)
	Total	**(2,65,200)**
e	**Balance carried to Balance sheet (c-d)**	**-**

Balance Sheet of P Ltd.

as on 31st March 2012

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	5,00,000
	b	Reserves and Surplus	2	3,05,200
2		**Non-current liabilities**		
	a	Long-term borrowings	3	2,20,000
3		**Current liabilities**		
	a	Trade Payables		2,80,000
	b	Other current liabilities	4	90,000
		Total		**13,95,200**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		7,00,000
2		**Current assets**		
	a	Cash and cash equivalents		95,200
	b	Other current assets		6,00,000
		Total		**13,95,200**

Notes to accounts

			Rs.
1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid-up		
	50,000 equity shares of Rs. 10 each fully paid up (Of the above equity shares Rs. 3 per share has not been received in cash but has been capitalised by issuing bonus dividend)		5,00,000
	Total		**5,00,000**
2.	**Reserves and Surplus**		
	Capital redemption reserve		2,00,000
	General reserve	3,00,000	
	Less: Utilised for redemption of preference share	(1,94,800)	105,200
	Profit & Loss Account		-
	Total		**3,05,200**
3.	**Long-term borrowings**		
	Secured		
	10% Debentures		2,20,000
	Total		**2,20,000**
4.	**Other current liabilities**		
	Proposed dividend		90,000
	Total		**90,000**
5.	**Other Income**		
	Interest on calls in arrear		1,200
6.	**Other Expenses**		
	Interest on calls in advance		6,000

Working Note :

Cash and Bank balance as on 31st March, 2012

		Rs.
Cash and bank balance (given)		2,00,000
Add:	Recovery of calls in arrear and interest thereon	21,200
	Proceeds from issue of 10% Debentures	2,20,000
		4,41,200

Less:	Payment of calls in advance and interest thereon	1,26,000
	Redemption of preference shares	2,20,000
		95,200

Note : In the absence of information, it has been assumed that the amount of calls in arrear has been received in the given solution. It has been assumed that 20% dividend on equity shares has been proposed before the equity shares are made fully paid by way of bonus dividend.

Question 5

The summarized financial position of P Limited at 31st December, 2012 was as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorised, Issued and Subscribed Capital		*Assets*	*8,40,000*
		Cash and Bank	*3,00,000*
40,000, 5 % Redeemable Preference shares of			
Rs. 10 each, fully paid	*4,00,000*		
20,000 Equity shares of Rs. 10 each, fully paid	*2,00,000*		
Securities Premium Account	*50,000*		
Profit and Loss Account	*2,80,000*		
Sundry Liabilities	*2,10,000*		
	11,40,000		*11,40,000*

As per the terms of issue of the Preference Shares these were redeemable at a premium of 5 % on 1st February, 2013 and it was decided to arrange this as far as possible out of the company's resources subject to leaving a balance of Rs. 50,000 in the credit of the Profit and Loss Account. It was also decided to raise the balance amount by issue of 17,000 Equity Shares of Rs. 10 each at a premium of Rs. 2.50 per share.

You are required to prepare the necessary Ledger Accounts giving effect to the above arrangements in the company's books. Journal Entries are not required. ***(May, 2002)***

Answer

5% Redeemable Preference Share Capital Account

2013		*Rs.*	*2013*		*Rs.*
Feb. 1	To Preference Share holders A/c	4,00,000	Jan. 1	By Balance b/d	4,00,000
		4,00,000			4,00,000

Preference Shareholders Account

2013		Rs.	2013			Rs.
Feb. 1	To Bank A/c	4,20,000	Feb. 1	By	5% Redeemable Preference Share Capital A/c	4,00,000
				By	Premium on Redemption A/c	20,000
		4,20,000				4,20,000

Premium on Redemption Account

2013		Rs	2013			Rs.
Feb. 1	To Preference Share-holders A/c	20,000	Feb. 1	By	Securities Premium A/c	20,000

Equity Shares Application and Allotment Account

2013		Rs.	2013			Rs.
Feb. 1	To Equity Share Capital A/c	1,70,000	Feb. 1	By	Bank A/c	2,12,500
	To Securities Premium A/c	42,500				
		2,12,500				2,12,500

Capital Redemption Reserve Account

2013		Rs.	2013			Rs.
Feb. 1	To Balance c/d	2,30,000	Feb. 1	By	Profit and Loss A/c	2,30,000
		2,30,000				2,30,000

Equity Share Capital Account

2013		Rs.	2013			Rs.
Feb. 1	To Balance	3,70,000	Jan. 1	By	Balance b/d	2,00,000
			Feb. 1	By	Equity shares application and allotment A/c	1,70,000
		3,70,000				3,70,000

Securities Premium Account

2013			Rs.	2013			Rs.
Feb. 1	To	Premium on Redemption A/c	20,000	Jan. 1	By	Balance b/d	50,000
	To	Balance c/d	72,500	Feb. 1	By	Equity Shares Application and Allotment A/c	42,500
			92,500				92,500

Cash and Bank Account

2013			Rs.	2013			Rs.
Jan. 1	To	Balance b/d	3,00,000	Feb. 1	By	Preference Share Holders A/c	4,20,000
Feb. 1	To	Equity Share Application and Allotment A/c	2,12,500		By	Balance c/d	92,500
			5,12,500				5,12,500

Note: No dividend has been paid on preference shares in the above solution. Alternatively, dividend may be paid at the rate of 5% for one month because the redemption takes place on 1st February, 2013 assuming that the articles of the company and terms of contract of company with the preference shareholders provide for such dividend.

Question 6

Following is the Balance Sheet of M/s Z Ltd. as on 31st March, 2009:

Liabilities	*Rs.*	*Assets*	*Rs.*
80,000, 6% Redeemable Preference shares of Rs.10 each Rs.9 paid up.	*7,20,000*	*Sundry Assets*	*16,80,000*
		Cash	*5,20,000*
40,000 Equity shares of Rs.10 each fully paid	*4,00,000*		
Securities premium	*1,00,000*		
Profit and Loss Account	*5,00,000*		
General Reserve	*60,000*		
Sundry Creditors	*4,20,000*		
	22,00,000		*22,00,000*

By the terms of their issue, the preference shares were redeemable at a premium of Re.0.50 per share on 1st April, 2009, and it was decided to arrange for this, as far as possible, out of the *companies resources subject to leaving a credit balance of Rs.24,000 in the profit and loss a/c. It was also decided to raise the balance of funds required by the issue of sufficient number of equity shares at a premium of 10%.*

Show the necessary Journal Entries giving effect to the above transactions and the Balance Sheet thereafter. ***(June, 2009)***

Answer

Journal Entries

	Particulars		*Debit Amount*	*Credit Amount*
			Rs.	*Rs.*
(1)	Redeemable Preference share final call A/c	Dr.	80,000	
	To 6% Redeemable Preference share capital A/c			80,000
	(Being final call due, because only fully paid shares can be redeemed, so preference shares have to be made fully paid)			
(2)	Bank A/c	Dr.	80,000	
	To 6% Redeemable Preference share final call A/c			80,000
	(Being call money received from all shareholders)			
(3)	Securities Premium A/c	Dr.	40,000	
	To Premium on Redemption of Preference shares			40,000
	(Being premium payable on redemption @ 5% is charged from Securities Premium A/c)			
(4)	Bank A/c	Dr.	2,90,400	
	To Equity share application and allotment A/c			2,90,400
	(Being amount received on issue of new shares)			
(5)	Equity Share Application & Allotment A/c	Dr.	2,90,400	
	To Equity Share Capital A/c (W.N.1)			2,64,000
	To Securities Premium A/c			26,400
	(Being shares issued at a premium of 10%)			
(6)	6% Redeemable Preference Capital A/c	Dr.	8,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	40,000	
	To Preference Shareholders A/c			8,40,000
	(Being redemption made)			

(7)	Preference Shareholders A/c	Dr.	8,40,000	
	To Bank A/c			8,40,000
	(Being payment made to preference shareholders)			
(8)	Profit & Loss A/c	Dr.	4,76,000	
	General Reserve A/c	Dr.	60,000	
	To Capital Redemption Reserve A/c			5,36,000
	(Being revenue profit transferred to Capital redemption reserve)			

Balance Sheet (After Redemption)

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	6,64,000
	b	Reserves and Surplus	2	6,46,400
2		**Non-current laibilities**		
	a	Long-term borrowings		
3		**Current laibilities**		
	a	Trade Payables		4,20,000
		Total		**17,30,400**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		16,80,000
2		**Current assets**		
	a	Cash and cash equivalents		50,400
		Total		**17,30,400**

Notes to accounts

		Rs.
1	**Share Capital**	
	Equity share capital	
	Issued, subscribed and paid-up	
	66,400 equity shares of Rs. 10 each fully paid up	6,64,000
	Total	**6,64,000**

2	**Reserves and Surplus**	
	Capital redemption reserve	5,36,000
	Securities Premium	86,400
	Profit & Loss Account	24,000
	Total	**6,46,400**

Working Notes:

1.	**Calculation of minimum number of equity shares to be issued:**				*Rs.*
	Face value* of Redeemable Preference shares				8,00,000
	Less:	General Reserve		60,000	
		Profit and Loss Account	(5,00,000 – 24,000)	4,76,000	5,36,000
	Face value of equity shares to be issued				2,64,000

2.	**Calculation of balance in securities premium account after redemption:**		*Rs.*
	Securities premium account before redemption		1,00,000
	Add:	Securities premium on issue of equity shares	26,400
			1,26,400
	Less:	Premium on redemption of preference shares	40,000
			86,400

3.	**Calculation of balance in cash account after redemption:**		*Rs.*
	Balance in cash account before redemption		5,20,000
	Add:	Final call on preference shares	80,000
	Add:	Proceeds from issue of equity shares	2,90,400
			8,90,400
	Less:	Payment to preference shareholders on redemption	8,40,000
			50,400

* Balance in securities premium account is sufficient to pay premium on redemption of preference shares. Therefore, only sum equal to face value of redeemable preference shares less funds available in P &L A/c and general reserve is to be considered for issue of shares (face value).

UNIT 2 : CASH FLOW STATEMENT

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- Dealt with under AS 3
- Based on cash concept of profit
- Benefits include providing information relating to changes in cash and cash equivalents of an enterprise.
- Useful tool of planning
- Cash funds include :
  - (a) Cash in hand
  - (b) Demand deposits with banks
  - (c) Cash equivalents
- Cash flow activities may be classified as inflow and outflow but as per AS-3 they are classified as Operating Activities, Investing activities, Financing activities
- Operating activities are principal revenue generating activities
- Investing Activities relate to acquisition and disposal of long-term assets and other investments
- Financing Activities include the ones which result in changes in the size and composition of the owner's capital (including preference share capital) and borrowings of the enterprise.
- Methods to calculate cash flow from operating activities include:
  - (a) Direct Method
  - (b) Indirect Method also known as reconciliation method
- In order to calculate cash flow from investing activities inflows and outflows related to acquisition and disposal of assets, other than those related to operating activities, are shown under this category
- In order to calculate cash flow from financing activities inflows and outflows related to the amount of capital and borrowings of the enterprise are shown under this head

Question 1

Classification of activities (with two examples) as suggested in AS 3, to be used for preparing a cash flow statements. ***(May, 2001)***

Answer

AS 3 (Revised) on Cash Flow Statements requires that the cash flow statement should report cash flows by operating, investing and financing activities.

(i) **Operating activities** are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities. Cash receipts from sale of goods and cash payments to suppliers of goods are two examples of operating activities.

(ii) **Investing activities** are acquisition and disposal of long-term assets and other investments not included in cash equivalents. Payment made to acquire machinery and cash received for sale of furniture are examples of investing activities.

(ii) **Financial activities** are those activities that result in changes in the size and composition of the owner's capital (including preference share capital in the case of a company) and borrowings of the enterprise. Cash proceeds from issue of shares and cash paid to redeem debentures are two examples of financing activities.

Question 2

*Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3, (AS 3) revised.**(November, 2002**)*

Answer

As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either :

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss in adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either :

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

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statment of profit and loss for :

  (i) changes during the period in inventories and operating receivables and payables;

  (ii) other non-cash items; and

  (iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activies is determined by adjusting net profit or loss for the effects of :

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes and unrealised foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

Question 3

Examine the following schedule prepared by K Ltd.

Schedule of funds provided by operations for the year ended 31st July, 2011

		(Rs.'000)	*(Rs.'000)*
Sales		*32,760*	
Add : Decrease in bills receivable.		*1,000*	
Less : Increase in accounts receivable		*(626)*	
Inflow from operating revenues			*33,134*
Cost of goods sold	*18,588*		
Less : *Decrease in inventories*	*(212)*		
Add : Decrease in trades payable	*81*	*18,457*	
Wages and Salaries	*5,284*		
Less : Increase in wages payable	*(12)*	*5,272*	
Administrative Expenses	*3,066*		
Add : Increase in prepaid expenses	*11*	*3,077*	
Property taxes		*428*	
Interest expenses	*532*		
Add : Amortisation of premium on bonds payable	*20*	*552*	
Outflow from operating expenses			*27,786*
From operations			*5,348*
Rent Income	*207*		
Add : Increase in unearned rent	*3*		*210*
			5,558
Income tax	*1,330*		
Less : Increase in deferred tax	*50*		*1,280*
Funds from operations			*4,278*

Required :

(i) What is the definition of funds shown in the schedule?

(ii) What amount was reported as gross margin in the income statement?

(iii) How much cash was collected from the customers?

(iv) How much cash was paid for the purchases made?

(v) As a result of change in inventories, did the working capital increase or decrease and by what amount?

(vi) How much rent was actually earned during the year?

(vii) What was the amount of tax expenses reported on the income statement?

(viii) Can you reconcile the profit after tax-with the funds provided by the operations? ***(May, 2000)***

Answer

(i) 'Funds' shown in the schedule refer to the cash and cash equivalents [as defined in AS 3 (Revised) on Cash Flow Statements].

(ii) Gross margin in the income statement:

		Rs. ('000)
	Sales	32,760
	Cost of goods sold	(18,588)
		14,172
(iii)	Cash collected from the customers	33,134
(iv)	Cash paid for purchases made	18,457
(v)	Change in inventories would reduce the working capital by	212
(vi)	Rental income earned during the year	207
(vii)	Tax expenses reported in the income statement	1330

(Viii) **Reconciliation Statement**

	Rs.('000)
Profit after tax (See W.N.)	3,719
Decrease in bills receivable	1,000
Increase in accounts receivable	(626)
Decrease in inventories	212
Decrease in trades payable	(81)
Increase in wages payable	12
Increase in prepaid expenses	(11)
Increase in unearned rent	3
Increase in deferred tax	50
Funds from operations as shown in the schedule (i.e. cash and cash equivalents)	4,278

Working Note :

Calculation of Profit after Tax		*Rs. ('000)*
Sales		32,760
Less : Cost of goods sold		18,588
Gross margin		14,172
Add : Rental income		207
		14,379
Less : Wages and salaries	5,284	
Administrative expenses	3,066	
Property taxes	428	
Interest expenses	532	
Amortisation of premium on bonds payable	20	
		9,330
Profit before tax		5,049
Less : Income tax		1,330
Profit after tax		3,719

Question 4

Ms. Joyti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year 2011 :

	(Rs. in lakhs)
Net Profit	*25,000*
Dividend (including dividend tax) paid	*8,535*
Provision for Income tax	*5,000*
Income tax paid during the year	*4,248*
Loss on sale of assets (net)	*40*
Book value of the assets sold	*185*
Depreciation charged to Profit & Loss Account	*20,000*
Amortisation of Capital grant	*6*
Profit on sale of Investments	*100*
Carrying amount of Investment sold	*27,765*
Interest income on investments	*2,506*
Increase expenses	*10,000*
Interest paid during the year	*10,520*
Increase in Working Capital (excluding Cash & Bank Balance)	*56,075*
Purchase of fixed assets	*14,560*
Investment in joint venture	*3,850*
Expenditure on construction work in progress	*34,740*

Proceeds from calls in arrear	*2*
Receipt of grant for capital projects	*12*
Proceeds from long-term borrowings	*25,980*
Proceeds from short-term borrowings	*20,575*
Opening cash and Bank balance	*5,003*
Closing cash and Bank balance	*6,988*

Required :

Prepare the Cash Flow Statement for the year 2011 in accordance with AS 3, Cash Flow Statements issued by the Institute of Chartered Accountants of India. (make necessary assumptions). ***(May, 2001)***

Answer

Star Oils Limited

Cash Flow Statement

for the year ended 31st December, 2011

(Rs. in lakhs)

Cash flows from operating activities		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Amortisation of capital grant	(6)	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,428	
Changes in working capital (Excluding cash and bank balance)	(56,075)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
Cash flows from investing activities		
Sale of assets	145	
Sale of investments (27,765 + 100)	27,865	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	

Net cash used in investing activities		(22,634)
Cash flows from financing activities		
Proceeds from calls in arrear	2	
Receipts of grant for capital projects	12	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	(8,535)	
		27,514
Net increase in cash and cash equivalents		1,985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

Working note :

Book value of the assets sold	185
Less : Loss on sale of assets	40
Proceeds on sale	145

Assumption :

Interest income on investments Rs. 2,506 has been received during the year.

Question 5

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2011 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents. ***(November, 2001)***

Summary Cash Account for the year ended 31.3.2011

	Rs. '000		*Rs. '000*
Balance on 1.4.2010	*50*	*Payment to Suppliers*	*2,000*
Issue of Equity Shares	*300*	*Purchase of Fixed Assets*	*200*
Receipts from Customers	*2,800*	*Overhead expense*	*200*
Sale of Fixed Assets	*100*	*Wages and Salaries*	*100*
		Taxation	*250*
		Dividend	*50*
		Repayment of Bank Loan	*300*
		Balance on 31.3.2011	*150*
	3,250		*3,250*

Answer

X Ltd.

Cash Flow Statement for the year ended 31st March, 2011

(Using the direct method)

	Rs. '000	*Rs.'000*
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash from operating activities		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at beginning of the period		50
Cash at end of the period		150

Question 6

From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:

Liabilities	*31.03.2011 (Rs.)*	*31.03.2010 (Rs.)*
Share Capital	*10,00,000*	*8,00,000*
Reserve	*2,00,000*	*1,50,000*
Profit and Loss Account	*1,00,000*	*60,000*
Debentures	*2,00,000*	–
Provision for taxation	*1,00,000*	*70,000*

Proposed dividend	*2,00,000*	*1,00,000*
Sundry Creditors	*7,00,000*	*8,20,000*
	25,00,000	*20,00,000*
Assets		
Plant and Machinery	*7,00,000*	*5,00,000*
Land and Building	*6,00,000*	*4,00,000*
Investments	*1,00,000*	–
Sundry Debtors	*5,00,000*	*7,00,000*
Stock	*4,00,000*	*2,00,000*
Cash on hand/Bank	*2,00,000*	*2,00,000*
	25,00,000	*20,00,000*

(i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.

(ii) During the year one old machine costing 50,000 (WDV 20,000) was sold for Rs. 35,000.

(iii) Rs. 50,000 was paid towards Income tax during the year.

(iv) Building under construction was not subject to any depreciation.

Prepare Cash flow Statement. ***(November, 2002)***

Answer

Grow More Ltd
Cash Flow Statement
for the year ended 31st March, 2011

Cash Flow from Operating Activities

Net Profit	40,000
Proposed Dividend	2,00,000
Provision for taxation	80,000
Transfer to General Reserve	50,000
Depreciation	1,25,000
Profit on sale of Plant and Machinery	(15,000)
Operating Profit before Working Capital changes	4,80,000
Increase in Stock	(2,00,000)
Decrease in debtors	2,00,000

Decrease in creditors	(1,20,000)	
Cash generated from operations	3,60,000	
Income tax paid	(50,000)	
Net Cash from operating activities		3,10,000
Cash Flow from Inventing Activities		
Purchase of fixed assets	(3,45,000)	
Expenses on building	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)
Cash Flow from financing activities		
Proceeds from issue of shares	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash used in financing activities		3,00,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,00,000
Cash and Cash equivalents at the end of the year		2,00,000

Working Notes:

Provision for taxation account

		Rs.			*Rs.*
To	Cash (Paid)	50,000	By	Balance b/d	70,000
To	Balance c/d	1,00,000	By	Profit and Loss A/c (Balancing figure)	80,000
		1,50,000			1,50,000

Plant and Machinery account

		Rs.			*Rs.*
To	Balance b/d	5,00,000	By	Depreciation	1,25,000
To	Cash (Balancing figure)	3,45,000	By	Cash (sale of machine)	20,000
			By	Balance c/d	7,00,000
		8,45,000			8,45,000

Question 7

From the following Balance Sheet and information, prepare Cash Flow Statement of Ryan Ltd. for the year ended 31st March, 2011:

Balance Sheet

	31st March, 2011 Rs.	31st March, 2010 Rs.
Liabilities		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference 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
9% Debentures	2,00,000	–
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
	31st March, 2011 Rs.	**31st March, 2010 Rs.**
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 has been sold out for Rs. 1,50,000 (Cost – Rs. 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.*

(ii) *On 1st April, 2010 a plant was sold for Rs. 90,000 (Original Cost – Rs. 70,000 and W.D.V. – Rs. 50,000) and Debentures worth Rs. 1 lakh was issued at par as part consideration for plant of Rs. 4.5 lakhs acquired.*

(iii) *Part of the investments (Cost – Rs. 50,000) was sold for Rs. 70,000.*

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

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

(vi) *Voluntary separation cost of Rs. 50,000 was adjusted against General Reserve.*

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

(viii) *Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.* ***(May, 2003)***

Answer

Cash Flow Statement of Ryan Limited

For the year ended 31st March, 2011

Cash flow from operating activities	*Rs.*	*Rs.*
Net Profit before taxation	2,45,000	
Adjustment for		
Depreciation	1,35,000	
Preliminary expenses	15,000	
Profit on sale of plant	(40,000)	
Profit on sale of investments	(20,000)	
Interest on debentures	18,000	
Operating profit before working capital changes	3,53,000	
Increase in inventory	(5,000)	
Decrease in bills receivable	5,000	
Increase in debtors	(45,000)	
Increase in creditors	15,000	
Decrease in bills payable	(10,000)	
Increase in accrued liabilities	10,000	

Cash generated from operations	3,23,000	
Income taxes paid	(1,00,000)	
	2,23,000	
Voluntary separation payments	(1,10,000)	
Net cash from operating activities		1,13,000
Cash flow from investing activities		
Proceeds from sale of land	1,50,000	
Proceeds from sale of plant	90,000	
Proceeds from sale of investments	70,000	
Purchase of plant	(3,50,000)	
Purchase of investments	(25,000)	
Pre-acquisition dividend received	5,000	
Net cash used in investing activities		(60,000)
Cash flow from financing activities		
Proceeds from issue of equity shares	1,00,000	
Proceeds from issue of debentures	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(60,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(78,000)
Net decrease in cash and cash equivalents		(25,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		65,000

Working Notes:

1.

	Rs.
Net profit before taxation	
Retained profit	70,000
Less: Balance as on 31.3.2010	(50,000)
	20,000
Provision for taxation	1,35,000
Proposed dividend	90,000
	2,45,000

2. **Land and Building Account**

		Rs.			Rs.
To	Balance b/d	2,00,000	By	Cash (Sale)	1,50,000
To	Capital reserve (Profit on sale)	30,000	By	Balance c/d	1,50,000
To	Capital reserve (Revaluation profit)	70,000			
		3,00,000			3,00,000

3. **Plant and Machinery Account**

		Rs.			Rs.
To	Balance b/d	5,00,000	By	Cash (Sale)	90,000
To	Profit and loss account	40,000	By	Depreciation	1,35,000
To	Debentures	1,00,000	By	Balance c/d	7,65,000
To	Bank	3,50,000			
		9,90,000			9,90,000

4. **Investments Account**

		Rs.			Rs.
To	Balance b/d	80,000	By	Cash (Sale)	70,000
To	Profit and loss account	20,000	By	Dividend (Pre-acquisition)	5,000
To	Bank (Balancing figure)	25,000	By	Balance c/d	50,000
		1,25,000			1,25,000

5. **Capital Reserve Account**

		Rs.			Rs.
To	Balance c/d	1,00,000	By	Profit on sale of land	30,000
			By	Profit on revaluation of land	70,000
		1,00,000			1,00,000

6. **General Reserve Account**

		Rs.			Rs.
To	Voluntary separation cost	50,000	By	Balance b/d	2,50,000
To	Capital redemption reserve	1,00,000			
To	Balance c/d	1,00,000			
		2,50,000			2,50,000

7. **Proposed Dividend Account**

	Rs.		Rs.
To Bank (Balancing figure)	60,000	By Balance b/d	60,000
To Balance c/d	90,000	By Profit and loss account	90,000
	1,50,000		1,50,000

8. **Provision for Taxation Account**

	Rs.		Rs.
To Bank (Balancing figure)	1,00,000	By Balance b/d	60,000
To Balance c/d	95,000	By Profit and loss account	1,35,000
	1,95,000		1,95,000

9. **Voluntary Separation Payments Account**

	Rs.		Rs.
To Balance b/d	65,000	By General reserve	50,000
To Bank (Balancing figure)	1,10,000	By Balance c/d	1,25,000
	1,75,000		1,75,000

Note: Cash Flow statement has been prepared using 'indirect method'.

Question 8

The Balance Sheet of New Light Ltd. for the years ended 31st March, 2010 and 2011 are as follows:

Liabilities	*31st March 2010 (Rs.)*	*31st March 2011 (Rs.)*	*Assets*	*31st March 2010 (Rs.)*	*31st March 2011 (Rs.)*
Equity share capital	*12,00,000*	*16,00,000*	*Fixed Assets*	*32,00,000*	*38,00,000*
10% Preference share capital	*4,00,000*	*2,80,000*	*Less: Depreciation*	*9,20,000*	*11,60,000*
				22,80,000	*26,40,000*
Capital Reserve	*–*	*40,000*	*Investment*	*4,00,000*	*3,20,000*
General Reserve	*6,80,000*	*8,00,000*	*Cash*	*10,000*	*10,000*
Profit and Loss A/c	*2,40,000*	*3,00,000*	*Other current assets*	*11,10,000*	*13,10,000*
9% Debentures	*4,00,000*	*2,80,000*	*Preliminary expenses*	*80,000*	*40,000*

Current liabilities	*4,80,000*	*5,20,000*			
Proposed dividend	*1,20,000*	*1,44,000*			
Provision for Tax	*3,60,000*	*3,40,000*			
Unpaid dividend	*–*	*16,000*			
	38,80,000	*43,20,000*		*38,80,000*	*43,20,000*

Additional information:

(i) The company sold one fixed asset for Rs. 1,00,000, the cost of which was Rs. 2,00,000 and the depreciation provided on it was Rs. 80,000.

(ii) The company also decided to write off another fixed asset costing Rs. 56,000 on which depreciation amounting to Rs. 40,000 has been provided.

(iii) Depreciation on fixed assets provided Rs. 3,60,000.

(iv) Company sold some investment at a profit of Rs. 40,000, which was credited to capital reserve.

(v) Debentures and preference share capital redeemed at 5% premium.

(vi) Company decided to value stock at cost, whereas previously the practice was to value stock at cost less 10%. The stock according to books on 31.3.2010 was Rs. 2,16,000. The stock on 31.3.2011 was correctly valued at Rs. 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

(November, 2003)

Answer

New Light Ltd.

Cash Flow Statement for the year ended 31st March, 2011

A.	**Cash Flow from operating activities**	*Rs.*	*Rs.*
	Profit after appropriation		
	Increase in profit and loss A/c after inventory adjustment [Rs.3,00,000 – (Rs.2,40,000 + Rs.24,000)]	36,000	
	Transfer to general reserve	1,20,000	
	Proposed dividend	1,44,000	
	Provision for tax	3,40,000	
	Net profit before taxation and extraordinary item	6,40,000	
	Adjustments for:		
	Preliminary expenses written off	40,000	

	Depreciation	3,60,000	
	Loss on sale of fixed assets	20,000	
	Decrease in value of fixed assets	16,000	
	Premium on redemption of preference share capital	6,000	
	Premium on redemption of debentures	6,000	
	Operating profit before working capital changes	10,88,000	
	Increase in current liabilities (Rs.5,20,000 –Rs.4,80,000)	40,000	
	Increase in other current assets [Rs.13,10,000 – (Rs.11,10,000 + Rs.24,000)]	(1,76,000)	
	Cash generated from operations	9,52,000	
	Income taxes paid	(3,60,000)	
	Net Cash from operating activities		5,92,000
B.	**Cash Flow from investing activities**		
	Purchase of fixed assets	(8,56,000)	
	Proceeds from sale of fixed assets	1,00,000	
	Proceeds from sale of investments	1,20,000	
	Net Cash from investing activities		(6,36,000)
C.	**Cash Flow from financing activities**		
	Proceeds from issuance of share capital	4,00,000	
	Redemption of preference share capital (Rs.1,20,000 + Rs.6,000)	(1,26,000)	
	Redemption of debentures (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)	
	Dividend paid	(1,04,000)	
	Net Cash from financing activities		44,000
	Net increase/decrease in cash and cash equivalent during the year		Nil
	Cash and cash equivalent at the beginning of the year		10,000
	Cash and cash equivalent at the end of the year		10,000

Working Notes:

1. Revaluation of stock will increase opening stock by Rs. 24,000.

$$\frac{2,16,000}{90} \times 10 = \text{Rs. } 24,000$$

Therefore, opening balance of other current assets would be as follows:

Rs. 11,10,000 + Rs. 24,000 = Rs. 11,34,000

Due to under valuation of stock, the opening balance of profit and loss account be increased by Rs. 24,000.

The opening balance of profit and loss account after revaluation of stock will be

Rs. 2,40,000 + Rs. 24,000 = Rs. 2,64,000

2. **Investment Account**

		Rs.			*Rs.*
To	Balance b/d	4,00,000	By	Bank A/c (balancing figure being investment sold)	1,20,000
To	Capital reserve A/c (Profit on sale of investment)	40,000	By	Balance c/d	3,20,000
		4,40,000			4,40,000

3. Fixed Assets Account

		Rs.			*Rs.*	*Rs.*
To	Balance b/d	32,00,000	By	Bank A/c (sale of assets)	1,00,000	
To	Bank A/c (balancing figure being assets purchased)	8,56,000	By	Accumulated depreciation A/c	80,000	
			By	Profit and loss A/c(loss on sale of assets)	20,000	2,00,000
			By	Accumulated depreciation A/c	40,000	
			By	Profit and loss A/c (assets written off)	16,000	56,000
			By	Balance c/d		38,00,000
		40,56,000				40,56,000

4. Accumulated Depreciation Account

		Rs.			*Rs.*
To	Fixed assets A/c	80,000	By	Balance b/d	9,20,000
To	Fixed assets A/c	40,000	By	Profit and loss A/c (depreciation for the period)	3,60,000
To	Balance c/d	11,60,000			
		12,80,000			12,80,000

5. Unpaid dividend is taken as non-current item and dividend paid is shown at Rs. 1,04,000 (Rs.1,20,000 – Rs.16,000).

Note: Alternatively, unpaid dividend can be assumed as current liability and hence, dividend paid can be shown at Rs. 1,20,000. Due to this assumption cash flow from operating activities would be affected. The cash flow from operating activities will increase by Rs. 16,000 to Rs. 6,08,000 and cash flow from financing activities will get reduced by Rs. 16,000 to Rs. 28,000.

Question 9

ABC Ltd. gives you the following information. You are required to prepare Cash Flow Statement by using indirect methods as per AS 3 for the year ended 31.03.2011:

Balance Sheet as on

Liabilities	*31st March 2010*	*31st March 2011*	*Assets*	*31st March 2010*	*31st March 2011*
	Rs.	*Rs.*		*Rs.*	*Rs.*
Capital	*50,00,000*	*50,00,000*	*Plant & Machinery*	*27,30,000*	*40,70,000*
Retained Earnings	*26,50,000*	*36,90,000*	*Less: Depreciation*	*6,10,000*	*7,90,000*
Debentures	–	*9,00,000*		*21,20,000*	*32,80,000*
Current Liabilities			*Current Assets*		
Creditors	*8,80,000*	*8,20,000*	*Debtors*	*23,90,000*	*28,30,000*
Bank Loan	*1,50,000*	*3,00,000*	*Less: Provision*	*1,50,000*	*1,90,000*
Liability for expenses	*3,30,000*	*2,70,000*		*22,40,000*	*26,40,000*
Dividend payable	*1,50,000*	*3,00,000*	*Cash*	*15,20,000*	*18,20,000*
			Marketable securities	*11,80,000*	*15,00,000*
			Inventories	*20,10,000*	*19,20,000*
			Prepaid Expenses	*90,000*	*1,20,000*
	91,60,000	*1,12,80,000*		*91,60,000*	*1,12,80,000*

Additional Information:

(i) *Net profit for the year ended 31st March, 2011, after charging depreciation Rs. 1,80,000 is Rs. 22,40,000.*

(ii) *Debtors of Rs. 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.*

(iii) *ABC Ltd. declared dividend of Rs. 12,00,000 for the year 2010-2011.* ***(May, 2004)***

Answer

Cash flow Statement of ABC Ltd. for the year ended 31.3.2011

Cash flows from Operating activities		*Rs.*	*Rs.*
Net Profit		22,40,000	
Add: Adjustment for Depreciation (Rs.7,90,000 – Rs.6,10,000)		1,80,000	
Operating profit before working capital changes		24,20,000	
Add: Decrease in Inventories (Rs.20,10,000 – Rs.19,20,000)		90,000	
Increase in provision for doubtful debts (Rs. 4,20,000 – Rs.1,50,000)		2,70,000	
		27,80,000	
Less: Increase in Current Assets:			
Debtors (Rs. 30,60,000 – Rs.23,90,000)	6,70,000		
Prepaid expenses (Rs. 1,20,000 – Rs.90,000)	30,000		
Decrease in current liabilities:			
Creditors (Rs. 8,80,000 – Rs. 8,20,000)	60,000		
Expenses outstanding (Rs. 3,30,000 – Rs.2,70,000)	60,000	8,20,000	
Net cash from operating activities			19,60,000
Cash flows from Investing activities			
Purchase of Plant & Equipment (Rs. 40,70,000 – Rs.27,30,000)		13,40,000	
Net cash used in investing activities			(13,40,000)
Cash flows from Financing Activities			
Bank loan raised (Rs. 3,00,000 – Rs. 1,50,000)		1,50,000	
Issue of debentures		9,00,000	
Payment of Dividend (Rs. 12,00,000 – Rs. 1,50,000)		(10,50,000)	
Net cash used in financing activities			**NIL**
Net increase in cash during the year			6,20,000
***Add:* Cash and cash equivalents as on 1.4.2010 (Rs. 15,20,000 + Rs.11,80,000)**			27,00,000
Cash and cash equivalents as on 31.3.2011 (Rs. 18,20,000 + Rs.15,00,000)			33,20,000

Note: Bad debts amounting Rs. 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and debtors as on 31.3.2011. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of debtors and provision for doubtful debts as appearing in the balance sheet on 31.3.2011.

Question 10

The following figures have been extracted from the Books of X Limited for the year ended on 31.3.2011. You are required to prepare a cash flow statement.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs. 20 lakhs:

(a) Depreciation on Fixed Assets Rs. 5 lakhs.

(b) Discount on issue of Debentures written off Rs. 30,000.

(c) Interest on Debentures paid Rs. 3,50,000.

(d) Book value of investments Rs. 3 lakhs (Sale of Investments for Rs. 3,20,000).

(e) Interest received on investments Rs. 60,000.

(f) Compensation received Rs. 90,000 by the company in a suit filed.

(ii) Income tax paid during the year Rs. 10,50,000.

(iii) 15,000, 10% preference shares of Rs. 100 each were redeemed on 31.3.2011 at a premium of 5%. Further the company issued 50,000 equity shares of Rs. 10 each at a premium of 20% on 2.4.2010. Dividend on preference shares were paid at the time of redemption.

(iv) Dividends paid for the year 2009-2010 Rs. 5 lakhs and interim dividend paid Rs. 3 lakhs for the year 2010-2011.

(v) Land was purchased on 2.4.2010 for Rs. 2,40,000 for which the company issued 20,000 equity shares of Rs. 10 each at a premium of 20% to the land owner as consideration.

(vi) Current assets and current liabilities in the beginning and at the end of the years were as detailed below: ***(November, 2004)***

	As on 31.3.2010	*As on 31.3.2011*
	Rs.	*Rs.*
Stock	*12,00,000*	*13,18,000*
Sundry Debtors	*2,08,000*	*2,13,100*
Cash in hand	*1,96,300*	*35,300*
Bills receivable	*50,000*	*40,000*
Bills payable	*45,000*	*40,000*
Sundry Creditors	*1,66,000*	*1,71,300*
Outstanding expenses	*75,000*	*81,800*

Answer

X Ltd.

Cash Flow Statement

for the year ended 31st March, 2011

	Rs.	Rs.
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on fixed assets	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in stock	(1,18,000)	
Increase in sundry debtors	(5,100)	
Decrease in bills receivable	10,000	
Decrease in bills payable	(5,000)	
Increase in sundry creditors	5,300	
Increase in outstanding expenses	6,800	(1,06,000)
Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		

Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	(8,00,000)	
Net cash used in financing activities		(22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2010		1,96,300
Cash and cash equivalents as on 31.3.2011		35,300

Note: Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

Question 11

Raj Ltd. gives you the following information for the year ended 31st March, 2011:

(i) Sales for the year Rs.48,00,000. The Company sold goods for cash only.

(ii) Cost of goods sold was 75% of sales.

(iii) Closing inventory was higher than opening inventory by Rs.50,000.

- *(i) Trade creditors on 31.3.2011 exceed the outstanding on 31.3.2010 by Rs.1,00,000.*
- *(ii) Tax paid during the year amounts to Rs.1,50,000.*
- *(iii) Amounts paid to Trade creditors during the year Rs.35,50,000.*
- *(iv) Administrative and Selling expenses paid Rs.3,60,000.*
- *(v) One new machinery was acquired in December, 2010 for Rs.6,00,000.*
- *(vi) Dividend paid during the year Rs.1,20,000.*
- *(vii) Cash in hand and at Bank on 31.3.2011 Rs.70,000.*
- *(viii) Cash in hand and at Bank on 1.4.2010 Rs.50,000.*

Prepare Cash Flow Statement for the year ended 31.3.2011 as per the prescribed Accounting standard. ***(May, 2006)***

Answer

Cash flow statement of Raj Limited
for the year ended 31.3.2011

Direct Method

Cash flow from operating activities:	*Rs.*	*Rs.*
Cash receipt from customers (sales)	48,00,000	

Cash paid to suppliers and expenses (Rs.35,50,000 + Rs.3,60,000)	39,10,000	
Cash flow from operation	8,90,000	
Less: Tax paid	1,50,000	
Net cash from operating activities		7,40,000
Cash flow from investing activities:		
Purchase of fixed assets	(6,00,000)	
Net cash used in investing activities		(6,00,000)
Cash flow from financing activities:		
Dividend Paid	(1,20,000)	
Net cash from financing activities		(1,20,000)
		20,000
Add: Opening balance of Cash in Hand and at Bank		50,000
Cash in Hand and at Bank on 31.3.2011		70,000

Question 12

The following are the summarized Balance Sheets of 'X' Ltd. as on March 31, 2010 and 2011:

Liabilities	*As on 31.3.2010 (Rs.)*	*As on 31.3.2011 (Rs,.)*
Equity share capital	*10,00,000*	*12,50,000*
Capital Reserve	---	*10,000*
General Reserve	*2,50,000*	*3,00,000*
Profit and Loss A/c	*1,50,000*	*1,80,000*
Long-term loan from the Bank	*5,00,000*	*4,00,000*
Sundry Creditors	*5,00,000*	*4,00,000*
Provision for Taxation	*50,000*	*60,000*
Proposed Dividends	*1,00,000*	*1,25,000*
	25,50,000	*27,25,000*

Assets	*Year 2010 (Rs.)*	*Year 2011 (Rs.)*
Land and Building	*5,00,000*	*4,80,000*
Machinery	*7,50,000*	*9,20,000*
Investment	*1,00,000*	*50,000*

Stock	*3,00,000*	*2,80,000*
Sundry Debtors	*4,00,000*	*4,20,000*
Cash in Hand	*2,00,000*	*1,65,000*
Cash at Bank	*3,00,000*	*4,10,000*
	25,50,000	*27,25,000*

Additional Information:

(i) Dividend of Rs.1,00,000 was paid during the year ended March 31, 2011.

(ii) Machinery during the year purchased for Rs.1,25,000.

(iii) Machinery of another company was purchased for a consideration of Rs.1,00,000 payable in equity shares.

(iv) Income-tax provided during the year Rs.55,000.

(v) Company sold some investment at a profit of Rs.10,000, which was credited to Capital reserve.

(vi) There was no sale of machinery during the year.

(vii) Depreciation written off on Land and Building Rs.20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2011 as per AS 3 (Indirect method). ***(November, 2006)***

Answer

Cash Flow Statement for the year ending on March 31, 2011

		Rs.	*Rs.*
I.	**Cash flows from Operating Activities**		
	Net profit made during the year (W.N.1)	2,60,000	
	Adjustment for depreciation on Machinery (W.N.2)	55,000	
	Adjustment for depreciation on Land & Building	20,000	
	Operating profit before change in Working Capital	3,35,000	
	Decrease in Stock	20,000	
	Increase in Sundry Debtors	(20,000)	
	Decrease in Sundry Creditors	(1,00,000)	
	Income-tax paid	(45,000)	
	Net cash from operating activities		1,90,000
II.	**Cash flows from Investing Activities**		
	Purchase on Machinery	(1,25,000)	

	Sale of Investments	60,000	(65,000)
III.	**Cash flows from Financing Activities**		
	Issue of equity shares (2,50,000-1,00,000)	1,50,000	
	Repayment of Long term loan	(1,00,000)	
	Dividend paid	(1,00,000)	(50,000)
Net increase in cash and cash equivalent			75,000
Cash and cash equivalents at the beginning of the period			5,00,000
Cash and cash equivalents at the end of the period			5,75,000

Working Notes:

(i) **Net Profit made during the year ended 31.3.2011**

		Rs.
Increase in P & L (Cr.) Balance		30,000
Add:	Transfer to general reserve	50,000
Add:	Provision for taxation made during the year	55,000
Add:	Provided for proposed dividend during the year	1,25,000
		2,60,000

(ii) **Machinery Account**

		Rs.			Rs.
To	Balance b/d	7,50,000	By	Depreciation (Bal. Fig.)	55,000
To	Bank	1,25,000	By	Balance c/d	9,20,000
To	Equity share capital	1,00,000			
		9,75,000			9,75,000

(iii) **Provision for Taxation Account**

		Rs.			*Rs.*
To	Cash (Bal. Fig.)	45,000	By	Balance b/d	50,000
To	Balance c/d	60,000	By	P & L A/c	55,000
		1,05,000			1,05,000

(iv) **Proposed Dividend Account**

		Rs.			Rs.
To	Bank	1,00,000	By	Balance b/d	1,00,000
To	Balance c/d	1,25,000	By	P & L A/c (Bal. Fig.)	1,25,000
		2,25,000			2,25,000

(v) **Investment Account**

	Rs.		Rs.
To Balance b/d	1,00,000	By Bank A/c (Balancing figure for investment sold)	60,000
To Capital Reserve A/c (Profit on sale of investment)	10,000	By Balance c/d	50,000
	1,10,000		1,10,000

Question 13

From the following information, prepare cash flow statement of A (P) Ltd. as at 31st March, 2010 by using indirect method:

Balance Sheet

	2009 Rs.	2010 Rs.
Liabilities:		
Share capital	*12,00,000*	*12,00,000*
Profit and loss account	*8,50,000*	*10,00,000*
Long term loans	*10,00,000*	*10,60,000*
Creditors	*3,50,000*	*4,00,000*
	34,00,000	*36,60,000*
Assets:		
Fixed assets	*17,00,000*	*20,00,000*
Investment in shares	*2,00,000*	*2,00,000*
Stock	*6,80,000*	*7,00,000*
Debtors	*7,20,000*	*6,60,000*
Cash	*60,000*	*70,000*
Bills receivable	*40,000*	*30,000*
	34,00,000	*36,60,000*

Income Statement for the year ended 31st March, 2010

	Rs.
Sales	*40,80,000*
Less: Cost of sales	*(27,20,000)*
Gross profit	*13,60,000*

Less: Operating expenses:		
Administrative expenses	*(4,60,000)*	
Depreciation	*(2,20,000)*	*(6,80,000)*
Operating profit		*6,80,000*
Add: Non-operating incomes (dividend received)		*50,000*
		7,30,000
Less: Interest paid		*(1,40,000)*
Profit before tax		*5,90,000*
Less: Income-tax		*(2,60,000)*
Profit after tax		*3,30,000*

Statement of Retained Earnings

	Rs.
Opening balance	*8,50,000*
Add: Profit	*3,30,000*
	11,80,000
Less: Dividend paid	*(1,80,000)*
Closing balance	*10,00,000*

(May, 2010)

Answer

Cash Flow Statement of A (P) Ltd.

for the year ended 31st March 2010

		Rs.	Rs.
(i)	**Cash flows from operating activities**		
	Profit before tax	5,90,000	
	Adjustments for		
	Depreciation	2,20,000	
	Interest	1,40,000	
	Dividend	(50,000)	
	Operating profit before working capital changes	9,00,000	
	Add: Decrease in bills receivable	10,000	
	Decrease in debtors	60,000	
	Increase in creditors	50,000	

		10,20,000	
	Less: Increase in stock	(20,000)	
	Cash generated from operations	10,00,000	
	Less: Tax paid	(2,60,000)	
	Cash flow from operating activities		7,40,000
(ii)	**Cash flows from investing activities**		
	Purchase of fixed assets [20,00,000+2,20,000-17,00,000]	(5,20,000)	
	Dividend on investments	50,000	
	Cash used in investing activities		(4,70,000)
(iii)	**Cash flows from financing activities**		
	Long term loan taken	60,000	
	Interest paid	(1,40,000)	
	Dividend paid	(1,80,000)	
	Cash used in financing activities		(2,60,000)
Net increase in cash during the year			10,000
Add: Opening cash balance			60,000
Closing cash balance			70,000

Question 14

The Balance Sheets of X Ltd. as on 31st March, 2010 and 31st March, 2011 are as follows:

Liabilities	*2010 Amount (Rs.)*	*2011 Amount (Rs.)*	*Assets*	*2010 Amount (Rs.)*	*2011 Amount (Rs.)*
Share Capital	*5,00,000*	*7,00,000*	*Land and Buildings*	*80,000*	*1,20,000*
General Reserve	*50,000*	*70,000*	*Plant and Machinery*	*5,00,000*	*8,00,000*
Profit and Loss A/c	*1,00,000*	*1,60,000*	*Stock*	*1,00,000*	*75,000*
Sundry Creditors	*1,53,000*	*1,90,000*	*Sundry Debtors*	*1,50,000*	*1,60,000*
Bills Payable	*40,000*	*50,000*	*Cash*	*20,000*	*20,000*
Outstanding Expenses	*7,000*	*5,000*			
	8,50,000	*11,75,000*		*8,50,000*	*11,75,000*

Additional Information:

(a) Rs.50,000 depreciation has been charged to Plant and Machinery during the year 2011.

(b) *A piece of Machinery costing Rs.12,000 (Depreciation provided there on Rs.7,000) was sold at 60% profit on book value.*

You are required to prepare Cash flow statement for the year ended 31st March 2011 as per AS 3 (revised), using indirect method. ***(June, 2009)***

Answer

Cash Flow Statement for the year ended 31st March, 2011

			Amount Rs.	*Amount Rs.*
I	**Cash Flows from Operating Activities**			
	Closing Balance as per Profit & Loss A/c			1,60,000
	Less:	Opening Balance as per Profit & Loss A/c		(1,00,000)
				60,000
	Add:	Transfer to General Reserve		20,000
	Net Profit before taxation and extra-ordinary items			80,000
	Add:	Depreciation on Plant and Machinery		50,000
	Less:	Profit on sale of machinery (Refer W.N.)		(3,000)
	Operating Profit			1,27,000
	Add:	Decrease in Stock	25,000	
		Increase in Creditors	37,000	
		Increase in Bills Payable	10,000	72,000
				1,99,000
	Less:	Increase in Debtors	(10,000)	
		Decrease in Outstanding expenses	(2,000)	(12,000)
	Net Cash from Operating Activities			1,87,000
II.	**Cash Flows from Investing Activities**			
	Purchase of Land & Building		(40,000)	
	Proceeds from Sale of Machinery (Refer W.N.)		8,000	
	Purchases of Plant & Machinery (Refer W.N.)		(3,55,000)	
	Net Cash Used in Investing Activities			(3,87,000)
III.	**Cash Flows from Financing Activities**			
	Proceeds from Issuance of Share Capital		2,00,000	
	Net Cash from Financing Activities			2,00,000

Net Increase/Decrease in Cash & Cash Equivalents		0
Add: Cash in hand at the beginning of the year		20,000
Cash in hand at the end of the year		20,000

Working Note:

Plant and Machinery Account

		Rs.			*Rs.*
To	Balance b/d	5,00,000	By	Bank	8,000*
To	Profit and Loss A/c (Profit on sale)	3,000	By	Depreciation	50,000
To	Purchases (Bal. fig.)	3,55,000	By	Balance c/d	8,00,000
		8,58,000			8,58,000

Question 15

The following are the summarized Balance Sheet of Star Ltd. as on 31st March, 2010 and 2011:

		(Rs.'000)
	2010	*2011*
Equity share capital of Rs.10 each	*3,400*	*3,800*
Profit and Loss A/c	*400*	*540*
Securities Premium	*40*	*80*
14% Debentures	*800*	*900*
Long term borrowings	*180*	*240*
Sundry Creditors	*360*	*440*
Provision for Taxation	*20*	*40*
Proposed Dividend	*300*	*480*
	5,500	*6,520*
Sundry Fixed Assets:		
Gross Block	*3,200*	*4,000*
Less: Depreciation	*640*	*1,440*
Net Block	*2,560*	*2,560*
Investment	*1,200*	*1,400*
Inventories	*1,000*	*1,400*
Sundry Debtors	*640*	*900*

* 160% of (12,000-7,000) = Rs.8,000

Cash and Bank Balance	*100*	*260*
	5,500	*6,520*

The Profit and Loss account for the year ended 31st March, 2011 disclosed:

	(Rs.'000)
Profit before tax	*780*
Less: Taxation	*(160)*
Profit after tax	*620*
Less: Proposed dividend	*(480)*
Retained Profit	*140*

The following information are also available:

(1) 40,000 equity shares issued at a premium of Re.1 per share.

(2) The Company paid taxes of Rs.1,40,000 for the year 2010-11.

(3) During the period, it discarded fixed assets costing Rs.4 lacs, (accumulated depreciation Rs.80,000) at Rs.40,000 only.

You are required to prepare a cash flow statement as per AS 3 (Revised), using indirect method.

(November, 2009)

Answer

Cash Flow Statement for the year ended 31st March, 2011

			Rs.('000)
(A)	**Cash flow from operating activities**		
	Net profit before tax	780	
	Add: Adjustment for depreciation	880	
	Loss on sale of fixed assets	280	
	Interest on debentures*	126	
	Operating profit before changes in working capital	2,066	
	Less: Increase in Sundry Debtors	(260)	
	Less: Increase in Inventories	(400)	
	Add: Increase in Sundry Creditors	80	
	Cash generated from operations	1,486	
	Less: Income tax paid (W.N.1)	(140)	
	Net cash from operating activities		1,346

* It is assumed that debentures of Rs. 1,00,000 were issued at the beginning of the year.

(B)	**Cash flow from investing activities**		
	Purchase of fixed assets	(1,200)	
	Sale of fixed assets	40	
	Purchase of investments	(200)	
	Net cash used in investing activities		(1,360)
(C)	**Cash flow from financing activities**		
	Proceeds from issue of shares including premium (400 + 40)	440	
	Proceeds from issue of 14% debentures (900 – 800)	100	
	Proceeds from long term borrowings	60	
	Interest on debentures	(126)	
,	Payment of dividend	(300)	
	Net cash from financing activities		174
	Net increase in cash and cash equivalents (A+B+C)		160
	Cash and cash equivalents at the beginning of the year		100
	Cash and cash equivalents at the end of the year		260

Working Notes:

1. Calculation of Income tax paid during the year	*Rs.('000)*
Income tax expense for the year	160
Add: Income tax liability at the beginning of the year	20
	180
Less: Income tax liability at the end of the year	(40)
Income tax paid during the year	140
2. Calculation of Fixed assets purchased during the year	
Closing balance of gross block of fixed assets	4,000
Add: Cost of assets discarded during the year	400
	4,400
Less: Opening balance of gross block of fixed assets	(3,200)
Fixed assets purchased during the year	1,200
3. Calculation of Depreciation charged during the year	
Closing balance of accumulated depreciation	1,440
Add: Depreciation charged on assets discarded during the year	80
	1,520
Less: Opening balance of accumulated depreciation	(640)
Depreciation charged during the year	880

Question 16

From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3,2010:

Balance Sheets of Mr. Zen

Liabilities	*As on 1.4.2009 Rs.*	*As on 1.4.2010 Rs.*
Zen's Capital A/c	*10,00,000*	*12,24,000*
Sundry creditors	*3,20,000*	*3,52,000*
Mrs. Zen's loan	*2,00,000*	*--*
Loan from Bank	*3,20,000*	*4,00,000*
	18,40,000	*19,76,000*
Liabilities	*As on 1.4.2009*	*As on 1.4.2010*
	Rs.	*Rs.*
Land	*6,00,000*	*8,80,000*
Plant and Machinery	*6,40,000*	*4,40,000*
Stock	*2,80,000*	*2,00,000*
Debtors	*2,40,000*	*4,00,000*
Cash	*80,000*	*56,000*
	18,40,000	*19,76,000*

Additional information:

A machine costing Rs.80,000 (accumulated depreciation there on Rs.24,000) was old for Rs.40,000. The provision for depreciation on 1.4.2009 was Rs.2,00,000 and 31.3.2010 was Rs.3,20,000. The net profit for the year ended on 31.3.2010 was Rs.3,60,000. ***(May, 2010)***

Answer

Cash Flow Statement of Mr. Zen as per AS 3

for the year ended 31.3.2010

			Rs.
(i)	**Cash flow from operating activities**		
	Net Profit (given)		3,60,000
	Adjustments for		
	Depreciation on Plant & Machinery	1,44,000	
	Loss on Sale of Machinery	16,000	***1,60,000***

	Operating Profit before working capital changes		***5,20,000***
	Decrease in Stock	80,000	
	Increase in Debtors	(1,60,000)	
	Increase in Creditors	32,000	(48,000)
	Net cash from operating activities		4,72,000
(ii)	**Cash *flow from* investing activities**		
	Sale of Machinery	40,000	
	Purchase of Land	(2,80,000)	
	Net cash used in investing activities		(2,40,000)
(iii)	**Cash *flow from* ~~used in~~ financing activities**		
	Repayment of Mrs. Zen's Loan	(2,00,000)	
	Drawings	(1,36,000)	
	Loan from Bank	80,000	
	Net cash used in financing activities		(2,56,000)
Net decrease in cash			(24,000)
Opening balance as on 1.4.2009			80,000
Cash balance as on 31.3.2010			56,000

Working Notes:

1. **Plant & Machinery A/c**

	Rs.		*Rs.*
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash – Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c – Loss on Sale (80,000 – 64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		8,40,000

2. **Provision for depreciation on Plant and Machinery A/c**

	Rs.		*Rs.*
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	3,44,000		3,44,000

3. To find out Mr. Zen's drawings:

	Rs.
Opening Capital	10,00,000
Add: Net Profit	3,60,000
	13,60,000
Less: Closing Capital	12,24,000
Drawings	1,36,000

EXERCISES

1. *Given below are the condensed Balance Sheets of Lambakadi Ltd. for two years and the statement of Profit and Loss for one year :*

		(Figures Rs. in lakhs)
As at 31st March	*1998*	*1997*
Share Capital		
In equity shares of Rs. 100 each	*150*	*110*
10% redeemable preference shares of Rs. 100 each	*10*	*40*
Capital redemption reserve	*10*	*—*
General reserve	*15*	*10*
Profit and loss account balance	*30*	*20*
8% debentures with convertible option	*20*	*40*
Other term loans	*15*	*30*
	250	*250*
Fixed assets less depreciation	*130*	*100*
Long term investments	*40*	*50*
Working capital	*80*	*100*
	250	*250*

Statement of Profit and Loss for the year ended 31st March, 2011

		(Figures Rs. in lakhs)
Sales		*600*
Less : Cost of sales		*400*
		200
Establishment charges	*30*	
Selling and distribution expenses	*60*	
Interest expenses	*5*	
Loss on sale of equipment (Book value Rs. 40 lakhs)	*15*	*110*
		90

Interest income	*4*	
Dividend income	*2*	
Foreign exchange gain	*10*	
Damages received for loss of reputation	*14*	*30*
		120
Depreciation		*50*
		70
Taxes		*30*
		40
Dividends		*15*
Net profit carried to Balance Sheet		*25*

Your are informed by the accountant that ledgers relating to debtors, creditors and stock for both the years were seized by the income-tax authorities and it would take atleast two months to obtain copies of the same. However, he is able to furnish the following data :

		(Figures Rs. in lakhs)
	2011	*2010*
Dividend receivable	*2*	*4*
Interest receivable	*3*	*2*
Cash on hand and with bank	*7*	*10*
Investments maturing within two months	*3*	*2*
	15	*18*
Interest payable	*4*	*5*
Taxes payable	*6*	*3*
	10	*8*
Current ratio	*1.5*	*1.4*
Acid test ratio	*1.1*	*0.8*

It is also gathered that debenture holders owning 50% of the debentures outstanding as on 31.3.2010 exercised the option for conversion into equity shares during the financial year and the same was put through.

You are required to prepare a direct method cash flow statement for the financial year, 2011 in accordance with para 18(a) of Accounting Standard (AS) 3 revised.

(Hints: Net cash from operating activities 112; Net cash used in investing activities (78); and Net cash used in financing activities (46))

2. *The following are the changes in the account balances taken from the Balance Sheets of PQ Ltd. as at the beginning and end of the year. :*

Changes in Rupees in	*debt or [credit]*
Equity share capital 30,000 shares of Rs. 10 each issued and fully paid	*0*
Capital reserve	*[49,200]*

8% debentures	*[50,000]*
Debenture discount	*1,000*
Freehold property at cost/revaluation	*43,000*
Plant and machinery at cost	*60,000*
Depreciation on plant and machinery	*[14,400]*
Debtors	*50,000*
Stock and work-in-progress	*38,500*
Creditors	*[11,800]*
Net profit for the year	*[76,500]*
Dividend paid in respect of earlier year	*30,000*
Provision for doubtful debts	*[3,300]*
Trade investments at cost	*47,000*
Bank	*[64,300]*
	0

You are informed that.

(a) Capital reserve as at the end of the year represented realised profits on sale of one freehold property together with surplus arising on the revaluation of balance of freehold properties.

(b) During the year plant costing Rs. 18,000 against which depreciation provision of Rs. 13,500 was lying, was sold for Rs. 7,000.

(c) During the middle of the year Rs. 50,000 debentures were issued for cash at a discount of Rs. 1,000.

(d) The net profit for the year was after crediting the profit on sale of plant and charging debenture interest.

You are required to prepare a statement which will explain why bank borrowing has increased by Rs. 64,300 during the year end. Ignore taxation.

(Hints: Net cash flow from operating activities Rs.30,500; Net cash used in investing activities Rs.(1,11,800); and Net cash from financing activities Rs. 17,000)