

CHAPTER 8

Cash Flow Statement

Introduction

Cash Flow is the life blood of a business which plays a vital role in an entire economic life. As discussed in the previous chapter, the word 'fund' is used in a narrower sense refers to 'cash'. When cash is used as 'fund' the analysis relates to movement of cash. Cash flows refer to the actual movement of cash into and out of an organization. In other words, the movement of cash inclusive of inflow of cash and outflow of cash. When the cash flows into the organization, it represents 'Inflow of Cash.' Similarly when the cash flows out of the business concern, it called as "Cash Outflow."

In order to ensure cash flows are adequate to meet current liabilities such as tax payments, wages, amounts due to trade creditors, it is essential to prepare a statement of changes in the financial position of a firm on cash basis is called as "Cash Flow Statement." This statement depicting movement of cash position from one period to another.

Uses of Cash Flow Statement

Cash Flow Statement is a useful tool to the management for taking important financial decision making. The following are the uses of this statement :

- (1) This Statement is the most useful to the management to prepare dividend and retention policies.
- (2) It guides the management to evaluate the changes in cash position.
- (3) It presents in brief to the management about the performance of operational, financial and investment activities for effective decision.
- (4) It helps to know how the movement of cash took place and the factors which caused the changes in cash flows.
- (5) It guides the management in order to take decisions about short-term obligations.
- (6) It also presents the details about the sources of cash and applications of cash during the particular period.

Difference between Fund Flow Statement and Cash Flow Statement

Fund Flow Statement and Cash Flow Statement are the two useful tools of financial analysis and interpretations of financial statements. But at the same time both the statements differ from each other in the following manner:

- (1) Fund Flow Statement helps to measure the causes of changes in working capital whereas cash flow statement focuses on the causes for the movement of cash during a particular period.
- (2) Fund flow statement is prepared on the basis of Fund or all financial resources while cash flow statement is based on cash basis of accounting.
- (3) Cash Flow Statement guides to the management for short-term financial planning while Fund flow analysis helps to the management for intermediate and long-term financial planning.
- (4) Statement of changes in working capital is required for the preparation of Fund flow statement while for cash flow statement no such statement is required.

Limitations of Cash Flow Statement

- (1) Cash Flow Statement has limited scope as it compares with Fund flow statement. Because it discloses inflows and outflows of cash alone. It does not reveal the overall financial position of the concern.
- (2) Cash Flow Statement cannot provide a comprehensive picture of a financial position because non-cash items of expenses and incomes are excluded.
- (3) The balances as disclosed by the cash flow statement may not be treated as actual liquid position of a concern since it cannot be easily influenced by postponing purchases and other payments.

Preparation of Cash Flow Statement

Cash Flow Statement is prepared like Fund Flow Statement. Preparation of this statement is based on the movement of cash, may be an actual inflow of cash or outflow of cash, Profit and Loss Account and other relevant informations. While preparing a cash flow statement, it starts with an opening balance of cash in hand and cash at bank, all the sources of cash are added to an opening balance minus applications of cash is reconciled with the closing balance of cash. The balance represents cash and bank balances at the end of accounting period.

SOURCES AND APPLICATIONS OF CASH**Sources of Cash (Inflow of Cash)**

The following are the main sources of cash such as:

- (1) Cash From Operations or Trading Profit.
- (2) Sale of Fixed Assets for Cash.
- (3) Sale of Investments for Cash.
- (4) Raising Long-Term Loans from Banks and Financial Institutions.
- (5) Issue of Shares and Debentures for Cash.

Application of Cash (Outflow of Cash)

Application of cash can be involved in the following forms :

- (1) Cash Lost in Operations or Trading Losses.
- (2) Redemption of Shares and Debentures by Cash.
- (3) Purchase of Fixed Assets.
- (4) Repayment of Long-Term Loans.

Computation of Cash Flow Statement

A comprehensive Cash Flow Statement is ascertained in two stages:

- (I) Cash From Operations, i.e., internal sources of cash calculated by preparing combined statements of adjusted profit and loss account.
- (II) External Sources and Applications of Cash, i.e., Flow of Cash involves in non-current items ascertained by the Statement of Sources and Applications of Cash.

Diagram of Sources and Applications of Cash

The summary of sources and applications of cash is presented in the chart given below :

<i>Sources of Cash (Inflow of Cash)</i>	<i>Applications of Cash (Outflow of Cash)</i>
Cash From Operations Sale of Fixed Assets Sale of Investments Issue of Shares Issue of Debentures Raising Long-Term Loans Increase in any Liabilities Decrease in any Assets	Cash Lost in Operations Purchase of Fixed Assets Purchase of Investment Redemption of Preference Shares Redemption of Debentures Decrease in any Liability Decrease in any Assets

I. CASH FROM OPERATIONS

Cash from operations is the main source of inflow of cash. The Net Profit or Net Loss is the net effect of business transactions shown by the profit and loss account. In order to find out the actual movement of cash from trading operations, it is essential to ascertaining cash from operations. It can be calculated under the following situations:

- (a) When all Transactions are Cash Transactions.
- (b) When all Transactions are not Cash Transactions.

(a) When all Transactions are Cash Transactions: It assumes that where all the expenses and losses, incomes and gains are paid or received in cash during the particular period. The Net Profit or Net Loss shown by the profit and loss account is taken as the amount of cash from operations. Thus, Net Profit or Net Loss is equal to cash from operations. When Net Profit made by a firm represents Cash Inflow or Cash Profit From Operations. Similarly, the Net Loss shown by the profit and loss account refers to Cash Outflow From Operations.

(b) When all Transactions are not Cash Transactions: In actual practice, in business transactions are made either on cash basis or credit basis. For example, goods purchased or sold on cash as well as on credit. Certain expenses are always outstanding and some of the incomes are not immediately realized

under such circumstances, the net profit made by a firm cannot generate equivalent amount of cash. Therefore, the charging of non-fund or non-cash items such as outstanding expenses, incomes received in advances, prepaid expenses and outstanding incomes etc. to profit and loss account should be readjusted. In such circumstances the actual cash from operations can be calculated by preparing adjusted profit and loss account.

Calculation of Cash from Operations

Cash From Operations can be calculated by either of the following methods:

- (A) Cash From Operations calculated with the help of Adjusted Profit and Loss Account. Under this method, all non-fund or non-operations items should be readjusted to cash profit from operations. The specimen form of cash from operations is given below :

Cash from Operations (Adjusted Profit and Loss Account)

Particulars	Rs.	Particulars	Rs.
To Depreciation on Fixed Assets		By Balance b/d	
To Transfer to General Reserve		(Opening Balance of P & L A/c)	
To Loss on Sale of Fixed Assets		By Profit on Sale of Fixed Assets	
To Increase in Outstanding Expenses		By Profit on Sale of Investments	
To Decrease in Prepaid Expenses		By Decrease in Outstanding Expenses	
To Preliminary Expenses written off		By Increase in Prepaid Expenses	
To Balance c/d		By Cash From Operations	
(Closing Balance of P & L A/c)		(Balancing figure)	

- (B) Cash From Operations can also be calculated on the basis of current assets and current liabilities. Under this method, the amount of changes in the various items of current assets and current liabilities other than cash and bank balances should be adjusted with the help of Adjusted Profit and Loss Account. It may be noted that, as compared to above this method may increase or decrease in items of creditors, stocks, debtors, bills receivable and bills payable are not adjusted while calculating cash profit from operations and they may be directly taken as Sources (inflow) of Cash or Application (outflow) of Cash. This method is generally adopted in practice.

While applying this method, the following general principles may be taken for measuring cash from operations :

Increase in Current Assets	—————>	Decrease in Cash
Decrease in Current Assets	—————>	Increase in Cash
Increase in Current Liability	—————>	Increase in Cash
Decrease in Current Liability	—————>	Decrease in Cash

Specimen Form

The specimen form for computation of cash from operations is given below :

Calculation of Cash from Operations :

(Combining Current Assets & Current Liabilities & Non-Cash & Non-Operating Items)

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net Profit (Closing Balance of Profit & Loss A/c)		* * *
<i>Add:</i>		
Depreciation on Fixed Assets	* * *	
Transfer to General Reserve		
Loss on Sale of Fixed Assets		
Loss on Sale of Investments		
Goodwill Written off		
Increase in Outstanding Expenses		
Decrease in Prepaid Expenses		
Decrease in Current Assets (Other than Cash and Bank)		
Increase in Current Liabilities		
Preliminary Expenses Written off	* * *	* * *
<i>Less :</i>	* * *	
Profit on Sale of Fixed Assets		
Profit on Sale of Investments		
Decrease in Outstanding Expenses		
Increase in Prepaid Expenses		
Increase in Current Assets (Other than Cash and Bank)		
Increase in Current Liabilities		
Opening Balance of Profit & Loss A/c		* * *
Cash From Operations		* * *

Illustration: 1

From the following Balance Sheet of ABC Ltd., you are required to calculate Cash From Operations:

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Capital and Liabilities :		
Share Capital	20,000	20,000
Profit made during the year	14,100	17,300
Provision for Depreciation	1,000	1,400
Long-Term Loans	2,000	3,000
Trade Creditors	6,450	5,300
Outstanding Expenses	850	150
	44,400	47,150
Assets :		
Plant and Machinery	28,500	30,000
Stocks	9,800	11,300
Trade Debtors	3,950	2,850
Cash Balances	2,150	3,000
	44,400	47,150

Solution :**Calculation of Cash from Operations**

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Profit made during the year (Closing Balance of P & L A/c)		17,300
Add :		
Provision for Depreciation	400	
Decrease in Debtors	1,100	1,500
		18,800
Less :		
Decrease in Creditors	1,150	
Decrease in Outstanding Expenses	700	
Increase in Stock	1,500	
Net Profit (Opening Balance of P & L A/c)	14,100	17,450
Cash From Operations		1,350

Illustration: 2

From the following balance you are required to calculate cash from operations

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Trade Debtors	1,00,000	94,000
Bills Receivable	20,000	25,000
Trade Creditors	40,000	50,000
Bills Payable	16,000	12,000
Outstanding Expenses	2,000	2,400
Prepaid Expenses	1,600	1,400
Accrued Income	1,200	1,500
Income Received in Advance	600	500
Profit made during the year	—	2,60,000

Solution:**Calculation of Cash from Operations**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net Profit (Closing Balance)		2,60,000
Add :		
Decrease in Debtors	6,000	
Increase in Creditors	10,000	
Increase in Outstanding Expenses	400	
Decrease in Prepaid Expenses	200	16,600
		2,76,600
Less :		
Increase in Bills Receivable	5,000	
Decrease in Bills Payable	4,000	
Increase in Accrued Income	300	
Decrease in Income Received in Advance	100	9,400
Cash From Operations		2,67,200

Illustration: 3

From the following information given by RR Ltd., you are required to prepare Cash From Operations:

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Bills Payable	10,000	16,000
Trade Creditors	24,000	32,000
Outstanding Expenses	4,000	2,000
Bills Receivable	40,000	36,000
Trade Debtors	80,000	1,20,000
Prepaid Expenses	4,000	6,000
Accrued Incomes	10,000	16,000
Incomes Received in Advance	4,000	2,000

Additional Information

RR Ltd., earned profit of Rs. 4,00,000 after charging or crediting the following items to its profit and loss account during the year 2003:

- (1) Profit on Sale of Investments Rs. 8,000
- (2) Loss on Sale of Building Rs. 18,000
- (3) Depreciation on Fixed Assets Rs. 14,000
- (4) Good Will Written off Rs. 4,000

Solution:**Calculation of Cash from Operations**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net Profit during the year		4,00,000
Add :		
Loss on Sale of Building	18,000	
Depreciation on Fixed Assets	14,000	
Good will Written off	4,000	
Increase in Bills Payable	6,000	
Increase in Trade Creditors	8,000	
Decrease in Bills Receivable	4,000	54,000
		4,54,000
Less :		
Profit on Sale of Investments	8,000	
Decrease in Outstanding Expenses	2,000	
Decrease in Income Received in Advance	2,000	
Increase in Trade Debtors	40,000	
Increase in Prepaid Expenses	2,000	
Increase in Accrued Income	6,000	60,000
Cash From Operations		3,94,000

II. EXTERNAL SOURCES AND APPLICATIONS OF CASH

External Sources of Cash

The following are the external sources of cash such as:

(1) **Fresh Issue of Shares:** Cash is received by issue of fresh shares to the public, after deducting necessary expenses and discount on issue of shares will be treated as sources of cash.

(2) **Issue of Debentures:** The Net Cash is received by the issue of debentures is source of cash.

(3) **Raising Long-Term Borrowings:** Long-term loans received from banks and financial institutions refer to inflow of cash.

(4) **Sale of Fixed Assets and Investments:** Net cash received from the sale of permanent assets and investments are treated as sources of cash.

Applications of Cash

Applications of cash or cash outflows or uses of cash may take any of the following forms:

(1) **Redemption of Shares and Debentures:** When redeemable preference shares and debentures are redeemed by paid in cash. It refers to as application or outflow of cash.

(2) **Purchase of Fixed Assets:** Cash used for purchase of plant and machinery, land and building, furniture and fixtures etc., or renewals and replacement of fixed assets are to be treated as outflow of cash.

(3) **Payment of Long-Term Loans:** The repayment or discharge of long-term loans received from banks and financial institutions results in outflow of cash.

Specimen Form of Cash Flow of Statement

Cash Flow Statement is prepared in any one of the following two ways :

- (1) Account Form.
- (2) Report Form.

(1) Account Form:

Cash Flow Statement

<i>Sources or Inflow of Cash</i>	<i>Rs.</i>	<i>Applications or Outflow of Cash</i>	<i>Rs.</i>
Opening Balances : Cash Bank Fresh Issue of Shares Issue of Debentures Raising Long-Term Loans Sale of Fixed Assets Sale of Investments Dividends Received Cash From Operations		Cash Lost in Operations Redemption of Preference Shares Redemption of Debentures Repayment of Long-Term Loans Purchase of Fixed Assets Purchase of Investments Tax Paid Dividend Paid Closing Balance : Cash Bank	
	***		***

(2) Report Form:**Cash Flow Statement**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Opening Balances :		
Cash		* * *
Bank		* * *
Add : Sources of Cash :		
Fresh Issue of Shares		
Issue of Debentures		
Long-Term Loans from Bank and Financial Institutions		
Sale of Fixed Assets		
Sale of Investments		
Dividends Received	* * *	
Cash From Operations		* * *
Total Inflow of Cash (A)		* * *
Less : Applications of Cash :		
Redemption of Preference Shares		
Redemption of Debentures		
Repayment of Long-Term Loans		
Purchase of Fixed Assets		
Payment of Dividends		
Payment of Tax		
Cash Lost of in Operations	* * *	* * *
Total Outflow of Cash (B)		* * *
Closing Balance of Cash and Bank		* * *

Illustration: 4

From the following Balance sheets of ABC Ltd., you are required to prepare a Cash Flow Statement:

Balance Sheet

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Share Capital	20,000	30,000	Fixed Assets	20,000	30,000
Profit & Loss A/c	10,000	16,000	Good Will	10,000	8,000
General Reserve	6,000	8,000	Stock	10,000	16,000
Debenture	10,000	12,000	Trade Debtors	10,000	16,000
Trade Creditors	6,000	8,000	Bills Receivable	2,000	4,000
Outstanding Expenses	2,000	3,000	Bank Balance	2,000	3,000
	54,000	77,000		54,000	77,000

Solution:**Calculation of Cash from Operations**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net Profit during the year (Closing Balance of Profit & Loss A/c)		16,000
<i>Add :</i>		
General Reserve (6000 – 8000)	2,000	
Good Will Written off (10,000 – 8000)	2,000	
Increase in Outstanding Expenses	1,000	
Increase in Trade Creditors	2,000	7,000
		23,000
<i>Less :</i>		
Increase in Stock (10000 – 16000)	6,000	
Increase in Debtors (10000 – 16000)	6,000	
Increase in Bills Receivable	2,000	
Opening Balance of P & L A/c	10,000	24,000
Cash Lost in Operations		1,000

Cash Flow Statement

<i>Sources of Cash</i>	<i>Rs.</i>	<i>Applications of Cash</i>	<i>Rs.</i>
Opening Balances :		Purchase of Fixed Assets	10,000
Cash at Bank	2,000	Cash lost in Operations	1,000
<i>Add :</i>		Closing Balance :	
Issue of Shares	10,000	Cash at Bank	3,000
Issue of Debenture	2,000		
	14,000		14,000

Illustration: 5

From the following informations, Prepare Cash From Operations and Cash Flow Statement :

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Assets :		
Cash Balances	5,000	3,500
Trade Debtors	15,000	25,000
Stock	17,500	12,500
Machinery	40,000	27,500
Land	20,000	25,000
Building	17,500	30,000
	1,15,000	1,23,500
Capital and Liabilities :		
Capital	62,500	76,500
Long-Term Loans	20,000	25,000
Mortgage Loans	12,500	—
Trade Creditors	20,000	22,000
	1,15,000	1,23,500

Additional Information

- (1) During the year a machine costing Rs. 5,000 (accumulated depreciation Rs. 1,500) was sold for Rs. 2,500.
- (2) The provision for depreciation against machinery during the year 2002 was Rs. 12,500 and Rs. 20,000 in 2003.
- (3) Net Profit earned during the year 2003 was Rs. 22,500.

Solution:**Cash Flow Statement**

<i>Sources of Cash</i>	<i>Rs.</i>	<i>Applications of Cash</i>	<i>Rs.</i>
Opening Balances :		Purchase of Land	5,000
Cash at Bank	5,000	Purchase of Building	12,500
Add :		Mortgage Loan repaid	12,500
Long-Term Loans	5,000	Drawings	8,500
Sale of Machinery	2,500	Closing Balances :	
Cash From Operations	29,500	Cash at Bank	3,500
	42,000		42,000

Working Note:**(1) Calculation of Cash from Operations**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net Profit during the year		22,500
Add :		
Depreciation on Machinery	9,000	
Loss on Sale of Machinery	1,000	
Decrease in Stock	5,000	
Increase in Creditors	2,000	17,000
		39,500
Less :		
Decrease in Creditors	10,000	10,000
Cash From Operations		29,500

(2) Machinery Account

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Balance b/d	52,500	By Bank	2,500
		By Loss on Sale of Machinery	1,000
		By Provision for Depreciation	1,500
		By Balance c/d	
		(40,000 + 5000 + 2500)	47,500
	52,500		52,500

(3) Provision for Depreciation

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	1,500	By Balance b/d	12,500
To Balance c/d	20,000	By P & L A/c (Depreciation Charged – Balancing Figure)	9,000
	21,500		21,500

(4) Capital Account

Particulars	Rs.
Opening Balance of Capital	62,500
Add : Profit	22,500
	85,000
Less : Closing Balance of Capital	76,500
Drawings	8,500

Illustration: 6

The summarized balance sheet of William & Co. Ltd., you are required to prepare a Cash Flow Statement.

Balance Sheet

Liabilities	2002 Rs.	2003 Rs.	Assets	2002 Rs.	2003 Rs.
Share Capital	90,000	90,000	Fixed Assets	80,000	64,000
General Reserve	60,000	62,000	Investments	10,000	12,000
Profit & Loss A/c	11,200	13,600	Stock	48,000	42,000
Creditors	33,600	26,800	Debtors	42,000	91,000
Provision for Tax	15,000	2,000	Bank	29,800	39,400
Mortgage Loan	—	54,000			
	2,09,800	2,48,400		2,09,800	2,48,400

Additional Information

- (1) Investments costing Rs. 1,600 were sold during the year 2003 for Rs. 1,700.
- (2) Provision for tax made during the year was Rs. 1,800.
- (3) During the year part of the fixed assets costing Rs. 2,000 was sold for Rs. 2,400 and the profit was included in profit and loss account.
- (4) Dividend paid during the year amounted to Rs. 800.

Solution:**Calculation of Cash from Operations**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net Profit during the year (13600 – 11200)		2,400
<i>Add :</i>		
Transfer to General Reserve	2,000	
Provision for Tax	1,800	
Dividend	8,000	
Depreciation	14,000	
Decrease in Stock	6,000	31,800
		34,200
<i>Less :</i>		
Profit on Sale of Investments	100	
Profit on Sale of Fixed Assets	400	
Increase in Debtors	49,000	
Decrease in Creditors	6,800	56,300
Fund Lost in Operations		22,100

Solution:**Cash Flow Statement**

<i>Sources of Cash</i>	<i>Rs.</i>	<i>Applications of Cash</i>	<i>Rs.</i>
Opening Balances :		Cash Lost in Operations	22,100
Cash at Bank	29,800	Payment of Tax	14,800
<i>Add :</i>		Payment of Dividend	8,000
Sale of Investments	1,700	Purchase of Investment	3,600
Sale of Fixed Assets	2,400	Closing Balances :	
Mortgage Loan	54,000	Cash at Bank	39,400
	87,900		87,900

Working Notes:**Provision for Tax Account**

To Bank (Balancing Figure)	14,800	By Balance b/d (Opening Balance)	15,000
To Balance c/d (Closing Balance)	2,000	By P & L A/c (Provision for 2003)	1,800
	16,800		16,800

Investment Account

To Balance b/d	10,000	By Cash A/c (Sold during the year)	1,600
To Bank (Purchased of Investments — Balancing Figure)	3,600	By Balance c/d	12,000
	13,600		13,600

Illustration: 7

From the following information, prepare

(a) Cash From Operations

(b) Cash Flow Statement

(c) Statement of Changes in Working Capital and

(d) Fund Flow Statement

Balance Sheet

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Assets :		
Furniture and Fittings	1,17,000	1,30,000
Motor Vans	1,54,000	80,000
Long-Term Investments	3,00,000	2,60,000
Stock	8,29,000	8,00,000
Trade Debtors	90,000	1,09,000
Cash at Bank	1,43,000	1,40,000
Preliminary Expenses	10,000	15,000
	16,43,000	15,34,000
Capital and Liabilities :		
Equity Share Capital	9,00,000	6,00,000
Preference Share Capital	—	2,00,000
Profit & Loss Account	1,10,000	75,000
Debentures	2,50,000	3,00,000
Bank Loan	75,000	1,00,000
Bills Payable	45,000	40,000
Trade Creditors	1,50,000	1,15,000
Outstanding Expenses	18,000	19,000
Provision for Taxation	95,000	85,000
	16,43,000	15,34,000

Solution:**Cash Flow Statement**

<i>Sources of Cash</i>	<i>Rs.</i>	<i>Applications of Cash</i>	<i>Rs.</i>
Opening Balances :		Redemption of Preference Shares	2,00,000
Cash at Bank	1,40,000	Redemption of Debenture	50,000
Add :		Repayment of Bank Loan	25,000
Cash From Operations	35,000	Purchase of Motor Vans	74,000
Depreciation on Furniture	13,000	Purchase of Long-Term Investments }	40,000
Preliminary Expenses written off }	5,000	Increase in Stock	29,000
Issue of Share Capital	3,00,000	Decrease in Outstanding Expenses	1,000
Decrease in Debtors	19,000	Closing Balances :	
Increase in Bills Payable	5,000	Cash at Bank	1,43,000
Increase in Trade Creditors	35,000		
Increase in Provision Tax	10,000		
	5,62,000		5,62,000

Cash Flow Statement

<i>Sources of Cash</i>	<i>Rs.</i>	<i>Applications of Cash</i>	<i>Rs.</i>
Fund From Operations	53,000	Redemption of preference shares	2,00,000
Issue of Equity Shares	3,00,000	Redemption of Shares	50,000
Decrease in Working Capital]	36,000	Repayment of Bank Loan	25,000
		Purchase of Motor Vans	74,000
		Purchase of Long-Term Investments]	40,000
	3,89,000		3,89,000

Note : While preparing Cash Flow Statement, increase or decrease in the various items of current assets and current liabilities are taken as Sources of Cash or Applications of Cash. Here they are not adjusted while computing Cash from Operations.

Calculation of Cash from Operations**(Adjusted Profit and Loss Account)**

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Depreciation on Furniture & Fixtures]	13,000	By Opening Balance of Profit & Loss A/c]	75,000
To Preliminary Expenses Written off]	5,000	By Cash From Operations (Balancing figure)]	53,000
To Closing Balance of Profit and Loss A/c]	1,10,000		
	1,28,000		1,28,000

Statement of Changes in Working Capital

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Changes in Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
Current Assets :				
Cash at Bank	1,40,000	1,43,000	3,000	—
Trade Debtors	1,09,000	90,000	—	19,000
Stock	8,00,000	8,29,000	29,000	—
Total Current Assets (A)	10,49,000	10,62,000		
Current Liabilities :				
Bills Payable	40,000	45,000	—	5,000
Trade Creditors	1,15,000	1,50,000	—	35,000
Outstanding Expenses	19,000	18,000	1,000	—
Provision for Taxation	85,000	95,000	—	10,000
Total Current Liabilities (B)	2,59,000	3,08,000		
Working Capital (Total A – B)	7,90,000	7,54,000		
Net Decrease in Working Capital	—	36,000	36,000	—
	7,90,000	7,90,000	69,000	69,000

Illustration: 8

From the following Balance sheet of Brard Well & Co. Ltd., make out the statement of Cash Flow:

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Assets :		
Good Will	5,750	4,500
Land & Buildings	10,000	8,500
Machinery	4,000	10,000
Trade Debtors	8,000	10,000
Stock	3,850	5,450
Bills Receivable	1,000	1,500
Cash in Hand	750	500
Cash at Bank	500	400
	33,850	40,850
Capital & Liabilities :		
Equity Share Capital	15,000	20,000
Preference Share Capital	7,500	5,000
General Reserve	2,000	3,500
Profit and Loss A/c	1,500	2,400
Proposed Dividend	2,100	2,500
Trade Creditors	2,750	4,150
Bills Payable	1,000	800
Provision for Taxations	2,000	2,500
	33,850	40,850

Additional Information

- (1) Depreciation on Machinery of Rs. 500 during the year 2003.
- (2) Depreciation on Land and Building of Rs. 1,000 during the year 2003.
- (3) An interim dividend of Rs. 1,000 was paid during the year 2003.
- (4) Income Tax Rs. 1,750 was paid during the year 2003.

Solution:**Cash Flow Statement**

<i>Sources of Cash</i>	<i>Rs.</i>	<i>Applications of Cash</i>	<i>Rs.</i>
Opening Balances :		Redemption of Preference Shares	2,500
Cash in Hand	750	Machinery Purchased	6,500
Cash at Bank	500	Interim Dividend Paid	1,000
<i>Add:</i>		Proposed Dividend of 2002 paid	2,100
Cash From Operations	8,000	Tax Paid	1,750
Issue of Equity Shares	5,000	Closing Balances :	
Sale of Buildings	500	Cash in Hand	500
		Cash at Bank	400
	14,750		14,750

Calculation of Cash from Operations

Particulars	Rs.	Rs.
Net Profit during the year (Rs. 2,400 – Rs. 1,500)		900
<i>Add :</i>		
Depreciation on Machinery	500	
Depreciation on Land & Buildings	1,000	
Transfer to General Reserve	1,500	
Interim Dividend	1,000	
Proposed Dividend	2,500	
Provision for Tax	2,250	
Good Will Written off	1,250	
Increase in Creditors	1,400	11,400
		12,300
<i>Less :</i>		
Increase in Debtors	2,000	
Decrease in Bills Payable	200	
Increase in Stock	1,600	
Increase in Bills Receivable	500	4,300
Cash From Operations		8,000

Note : Provision for Tax and Dividend are treated as Non-current items.

Provision for Taxation Account

To Bank (Tax Paid)	1,750	By Balance b/d	2,000
To Balance c/d	2,500	(Opening Balance)	
(Closing Balance)		By Profit & Loss A/c	2,250
	4,250		4,250

Machinery Account

To Balance b/d	4,000	By Depreciation	500
To Bank (Purchases)	6,500	By Balance c/d	10,000
(Balancing Figure)		(Provision for 2003)	
	10,500		10,500

Land and Buildings Account

To Balance b/d	10,000	By Depreciation	1,000
(Opening Balance)		By Bank (Sale)	
		(Balancing Figure)	500
		By Balance c/d	8,500
	10,000	(Closing Balance)	10,000

Note : Balancing figure in Land and Buildings is treated as sale of building because closing balance of depreciation on Land and Buildings already given in the problem (Rs. 10,000 – Rs. 8,500 = Rs. 1,500).

QUESTIONS

1. What is meant by Cash Flow Statement?
2. Explain briefly the uses of Cash Flow Statement.
3. What are the differences between Cash Flow Statement and Fund Flow Statement?
4. What are the limitations of Cash Flow Statement?
5. Explain the procedure for preparing a Cash Flow Statement.
6. What are the components of Sources and Applications of Cash?

PARTICULAR PROBLEMS

(1) From the following Balance sheet of Gupta & Co. Ltd., as on 31st Dec. 2002 and 2003, you are required to prepare Cash Flow Statement:

Particulars	2002 Rs.	2003 Rs.
Capital and Liabilities :		
Equity Share Capital	2,30,000	2,30,000
General Reserve	60,000	60,000
Profit and Loss Account	16,000	23,000
Debenture	90,000	70,000
Bills Payable	1,03,000	96,000
Outstanding Salary	13,000	12,000
Depreciation Fund	40,000	44,000
	5,52,000	5,35,000
Assets :		
Cash Balances	90,000	90,000
Trade Debtors	67,000	43,000
Bills Receivable	1,10,000	74,000
Stock	82,000	1,06,000
Prepaid Expenses	1,000	2,000
Land & Building	1,50,000	1,50,000
Machinery	52,000	70,000
	5,52,000	5,35,000

Additional Information

- (1) Now machinery for Rs. 30,000 was purchased but old machinery costing Rs. 6,000 was sold for Rs. 4,000; accumulated depreciation was Rs. 6,000.
- (2) Rs. 20,000 8% Debenture were redeemed by purchase from open market @ Rs. 96 for a debenture of Rs. 100.
- (3) Rs. 36,000 investments were sold at book value.
- (4) 10% dividend was paid in cash.

[Ans : Cash From Operations Rs. 54,200; Cash Flow Statement Rs. 2,08,200]

(2) The summarized Balance sheet of X Y Ltd. as on 31st December 2002 & 2003 you are required to prepare (a) Cash From Operations and (b) Cash Flow Statements.

Particulars	2002 Rs.	2003 Rs.
Assets :		
Plant and Machinery	1,00,000	1,00,000
Land and Buildings	2,00,000	1,50,000
Furniture and Fixtures	1,00,000	1,30,000
Investments	50,000	60,000
Stock	2,00,000	2,00,000
Bills Receivable	1,40,000	1,10,000
Trade Debtors	1,10,000	2,95,000
Bank Balances	1,49,000	1,97,000
	10,49,000	12,42,000

Particulars	2002 Rs.	2003 Rs.
Capital and Liabilities :		
Equity Share Capital	2,00,000	2,00,000
Preference Share Capital	2,50,000	4,50,000
General Reserve	3,00,000	3,10,000
Profit and Loss A/c	56,000	68,000
Bills Payable	1,20,000	1,10,000
Trade Creditors	48,000	24,000
Tax Provisions	75,000	10,000
Long-Term Loans	—	70,000
	10,49,000	12,42,000

Additional Information

- (1) Tax Provision made during the year was Rs. 9,000.
 (2) Investment costing Rs. 8,000 was sold for Rs. 8,500.
 (3) A part of the land and building costing Rs. 10,000 was sold for Rs. 12,000 and the profit was included in profit and loss A/c.

[Ans : Cash lost in operations Rs. 1,50,500; Cash flow statements Rs. 4,39,500].

- (3) The financial position of RX Ltd. as on 31st December 2002 and 2003, you are required to prepare the Cash Flow Statement :

Particulars	2002 Rs.	2003 Rs.
Assets :		
Cash in Hand	1,000	1,500
Cast at Bank	3,000	2,100
Trade Debtors	35,000	38,400
Bills Receivable	15,000	13,000
Stock	10,000	9,000
Land	20,000	30,000
Buildings	50,000	55,000
Machinery	80,000	86,000
	2,14,000	2,35,000
Capital and Liabilities :		
Trade Creditors	28,000	30,000
Bills Receivable	8,000	11,000
Long-Term Loans	—	20,000
Short-Term Loans	30,000	25,000
Capital and Reserves	1,48,000	1,49,000
	2,14,000	2,35,000

Additional Information

- (1) Dividend of Rs. 26,000 was paid during the year.
 (2) The provision for depreciation against machinery of Rs. 27,000 was made during the year 2002 and Rs. 36,000 was during the year 2003.

[Ans : (a) Cash From Operations Rs. 36,000; (b) Cash Flow Statement Rs. 68,000; (Total Figure).]

- (4) The following are the summarized Balance sheet of PH & Co. Ltd., you are required to prepare the Cash Flow Statement:

Particulars	2002 Rs.	2003 Rs.
Assets :		
Land and Buildings	1,00,000	95,000
Machinery	75,000	84,500
Stock	50,000	37,000

Sundry Debtors	40,000	32,100
Cash Balances	250	300
Bank Balances	—	4,000
Good will	—	2,500
	2,65,250	2,55,400
Capital & Liabilities :		
Share Capital	1,00,000	1,25,000
General Reserve	25,000	30,000
Profit and Loss A/c	15,250	15,300
Long-Term Loan	35,000	—
Trade Creditors	75,000	67,500
Provision for Taxation	15,000	17,500
	2,65,250	2,55,400

Additional Information

During the year ended 31st December 2003 :

- (1) Dividend of Rs. 11,500 was paid.
- (2) Assets of another company are purchased for a consideration of Rs. 25,000 payable in shares.
- (3) Purchase of Stock Rs. 10,000.
- (4) Purchase of Machinery Rs. 12,500 on shares.
- (5) Machinery was further purchased for Rs. 4,000 for cash.
- (6) Depreciation written off of machinery Rs. 6,000.
- (7) Income tax provided during the year Rs. 16,500.
- (8) Loss on sale of machinery Rs. 100 was written off to General Reserve.

[Ans : Cash From Operations Rs. 44,150; Cash Flow Statement Rs.68,800].

- (5) From the following Balance Sheet of Ram & Co. Ltd., you are required to prepare Cash Flow Statement:

Particulars	2002 Rs.	2003 Rs.
Assets :		
Goodwill	20,000	10,000
Land & Buildings	40,000	81,200
Stock	98,400	85,400
Trade Debtors	29,800	35,400
Bank Balances	18,000	—
	2,06,200	2,12,000
Capital and Liabilities :		
Share Capital	1,40,000	1,48,000
Debentures	24,000	12,000
Trade Creditors	20,720	23,680
Profit and Loss A/c	20,080	21,120
Provision for Doubtful Debts	1,400	1,600
Bank Overdraft	—	5,600
	2,06,200	2,12,000

Additional Information

- (1) During the year a building costing of Rs. 41,200 was purchased.
- (2) Goodwill written off Rs. 10,000.
- (3) Dividend of Rs. 7,000 has been paid during the year 2003.
- (4) Debenture loan of Rs. 1,200 was repaid during the year 2003.
- (5) An overdraft of Rs. 5,600 availed during the year 2003.

[Ans : Cash From Operations Rs. 18,240; Cash Flow Statement Rs. 65,800].

(6) The Balance Sheet of Nair & Co. Ltd., as on 31st Dec. 2002 and 2003, you are required to prepare a Cash Flow Statement:

Balance Sheet

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Share Capital	2,00,000	3,20,000	Fixed Assets	3,04,000	4,00,000
Profit & Loss A/c	1,40,500	1,70,600	Stock	1,86,800	1,78,400
Accumulated			Trade Debtors	61,600	42,200
Depreciation	1,20,000	80,000	Prepaid Expenses	7,900	6,000
Debtenture	1,00,000	—	Bank Balances	56,200	40,000
Trade Debtors	56,000	96,000			
	6,16,500	6,66,600		6,16,500	6,66,600

Additional Information

- (1) Profit earned during the year was Rs. 54,100.
- (2) Depreciation charge Rs. 20,000.
- (3) Cash dividend declared during the year Rs. 24,000.
- (4) An addition to the building was made during the year at cost of Rs. 1,56,000 and fully depreciated equipment costing Rs. 60,000 was discarded as no salvage being realized.

[Ans : (1) Cash From Operations Rs. 82,000; (2) Closing Balance of Cash Rs. 40,000]

(7) From the following Balance sheet of Ratha & Co. Ltd., as on 31st December 2003, you are required to prepare a Cash Flow Statement.

Balance sheet

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Assets :		
Land and Buildings	3,20,000	3,82,000
Plant and Machinery	1,80,000	2,76,000
Stock	60,000	80,000
Trade Debtors	1,20,000	1,60,000
Bills Receivable	20,000	28,000
Cash Balances	40,000	60,000
	7,40,000	9,86,000
Capital and Liabilities :		
Share Capital	4,00,000	5,60,000
Bank Overdraft	2,40,000	3,20,000
Bills Payable	28,000	32,000
Sundry Creditors	68,000	68,000
Outstanding Wages	4,000	6,000
	7,40,000	9,86,000

Additional Information

- (1) Profit earned during the year was Rs.1,60,000.
- (2) A machine costing Rs.40,000 included in the plant and machinery was sold at Rs.30,000.
- (3) The depreciation so charged on it up to the date of sale was Rs. 6,000.
- (4) Accumulated Balance of depreciation on Plant and Machinery during the year 2002 was Rs. 60,000 and Rs. 80,000 was in 2003.

(8) From the following Balance sheet as at 31st December 2002 and 31st December 2003, you are required to prepare a Cash Flow Statement :

Balance Sheet

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Share Capital	1,00,000	1,50,000	Fixed Assets	1,00,000	1,50,000
Profit & Loss A/c	50,000	80,000	Goodwill	50,000	40,000
General Reserve	30,000	40,000	Inventories	50,000	80,000
12% Bonds	50,000	60,000	Debtors	50,000	80,000
Sundry Creditors	30,000	40,000	Bills Receivable	10,000	20,000
Outstanding Expenses	10,000	15,000	Bank Balance	10,000	15,000
	2,70,000	3,85,000		2,70,000	3,85,000

[Ans : Cash from Operations Rs. 5,000; Total Cash Flow Statements Rs. 60,000]

(9) From the following Balance sheet of Gupta & Co. Ltd., you are required to prepare a Cash Flow Statement :

Balance Sheet

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Equity Share Capital	2,00,000	2,50,000	Cash in Hand	30,000	50,000
Preference Share Capital	2,00,000	2,50,000	Cash at Bank	30,000	44,000
Bills Payable	40,000	50,000	Sundry Debtors	2,00,000	1,90,000
Sundry Creditors	1,00,000	40,000	Bills Receivable	40,000	40,000
Profit and Loss A/c	20,000	46,000	Inventories	1,60,000	1,80,000
			Land Buildings	50,000	60,000
			Plant & Machinery	50,000	72,000
	5,60,000	6,36,000		5,60,000	6,36,000

[Ans : Cash From Operations Rs. 34,000; Total of Cash Flow Statements Rs. 16,000]

(10) Prepare Cash Flow Statement of Rajan & Co. Ltd. from the following information :

Balance Sheet

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Share Capital	1,00,000	4,00,000	Goodwill	-	20,000
8% Debentures	-	2,00,000	Machinery	1,25,000	4,75,000
Retained Earnings	60,000	90,000	Stock	20,000	80,000
Sundry Creditors	40,000	1,00,000	Sundry Debtors	30,000	1,00,000
Bills Payable	20,000	40,000	Cash at Bank	50,000	1,50,000
Provision for Tax	30,000	40,000	Cash in hand	25,000	45,000
	2,50,000	8,70,000		2,50,000	8,70,000

Additional Information

- (1) Depreciation charge on Machinery was Rs. 30,000
- (2) The debenture were issued at a premium of 5% which is included in the retained earnings
- (3) Provision for tax charged in 2003 was Rs. 35,000
- (4) During 2003, the business of a firm was purchased by issuing shares for Rs. 2,00,000. The assets acquired from the firm were ; Goodwill Rs. 20,000 ; Machinery Rs. 1,00,000; Stock Rs. 50,000 and Debtors Rs. 30,000

[Ans : Cash From Operations Rs. 1,15,000 ; Total of Cash Flow Statements Rs. 5,00,000]

(11) From the following Balance sheet of Patil & Co. Ltd. on 31st December 2002 and 2003, you are required to prepare a Cash Flow Statements :

Balance Sheet

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Equity Share (Rs. 100 each)	10,00,000	15,00,000	Plant & Machinery (at Cost)	15,00,000	18,00,000
Redeemable Preference Shares (Rs. 100 each Rs. 50 Paid)	5,00,000	-	Inventory	6,00,000	3,00,000
Share Premium	25,000	-	Sundry Debtors	15,00,000	10,00,000
Capital Redemption Reserve	-	5,00,000	Cash at Bank	2,00,000	5,00,000
General Reserve	10,00,000	7,00,000			
Profit & Loss A/c	2,75,000	3,00,000			
Current Liabilities	10,00,000	6,00,000			
	38,00,000	36,00,000		38,00,000	36,00,000

Additional Information

- (1) During the year the company paid Rs. 2,00,000 as equity dividend and Rs. 56,250 as preference dividend
- (2) The company redeemed the preference shares at a premium of 5% after making a call of Rs. 50 per share to make the shares fully paid
- (3) During the year one plant, the book value of which was Rs. 1,00,000, was sold at Rs. 25,000 and the company purchased plant for Rs. 6,00,000

[Ans : Cash From Operation Rs. 7,56,250; Total of Cash Flow Statement Rs. 27,81,000]

(12) Mohan & Co. Ltd. gives you the following balance sheet as at 31st December 2002 and 2003

Balance Sheet

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Equity Share Capital	50,000	60,000	Fixed Assets	85,000	1,04,000
8% Redeemable Preference Shares } Capital Redemption reserve	20,000	-	Investments	10,000	8,000
Share Premium	5,000	5,000	Preliminary Expenses	4,000	3,000
Profit and Loss A/c	14,000	27,000	Stock	20,000	28,000
General Reserve	10,000	13,000	Sundry Debtors	18,000	17,000
Taxation Reserve	7,000	9,000	Cash balances	6,000	11,000
Proposed Dividend	5,000	6,000			
Sundry Creditors	14,000	18,000			
Provision for Depreciation	18,000	23,000			
	1,43,000	1,71,000		1,43,000	1,71,000

Additional Information

- (1) During 2003 the proposed dividend was paid in addition to the preference dividend up to 30th June, 2003 on which date the preference shares were reduced at a per cent of 5. The premium had been provided out of share premium account.
- (2) Tax liability in respect of 2002 came to Rs. 5,500, the balance in the Taxation reserve as on 31st December 2002 was transferred to general reserve.
- (3) During the year a fixed costing Rs. 3,000 (depreciation provided for Rs. 1,600) was sold for Rs. 1,000.
- (4) Investment costing Rs. 2,000 were realized for Rs. 1,600. These matters have been adjusted in the profit and loss account. Prepare a statement showing the source and application of cash during 2003.

[Ans: Cash from operations Rs. 48,700; Total of cash flow statement Rs. 73,300]