

UNIT –III

FUND FLOW STATEMENT

Subject Name : Management Accounting

Class : III B.COM A & B

Subject Code : CCM53

UNIT - III

Fund Flow and Cash Flow Analysis: Concept of Funds, Sources and Uses of Funds – Fund Flow Statement – Concept of Cash Flow – Cash Flow Statement as Per AS3.

FUNDS FLOW STATEMENT

The Funds Flow Statement is a statement which shows the movement of funds and is a report of the financial operations of the business undertaking. It indicates various means by which funds were obtained during a particular period and the ways in which these funds were employed. In simple words,¹ it is a statement of sources and applications of funds.

MEANING AND CONCEPT OF FUNDS

In a narrow sense: It means cash only and a funds flow statement prepared on this basis is called a cash flow statement.

In a broader sense: The term 'funds' refers to money values in whatever form it may exist. Here 'funds' means all financial resources, used in business whether in the form of men, material, money, machinery and others.

In a popular sense: the term 'funds', means working capital, *i.e.*, the excess of current over current liabilities.

Generally refer to 'funds' as working capital and a funds flow statement as a statement of sources and application of funds.

MEANING AND CONCEPT OF 'FLOW OF FUNDS'

The term 'flow' means movement and includes both 'inflow' and 'outflow'. The term 'flow of funds' means transfer of economic values from one asset of equity to another. According to the working capital I concept of funds, the term 'flow of funds' refers to the movement of funds in the working capital. If any I transaction results in the increase in working capital, it is said to be a source or inflow of funds and if it results I in the decrease of working capital, it is said to be an application or out-flow of funds.

Rule:

The flow of funds occurs when a transaction changes on the one hand a non-current account and on the other a current account and vice-versa.

Funds move when a transaction affects:

- a. A current asset and a fixed asset,*
- b. A fixed and a current liability,*
- c. A current asset and a fixed liability,*
- d. A fixed liability and current liability; and funds do not move **when** the transaction affects fixed assets and fixed liability or current assets and current liabilities.*

CURRENT AND NON-CURRENT ACCOUNTS

To understand flow of funds, it is essential to classify various accounts and balance sheet items into current and non-current categories.

Current Accounts can either be current assets or current liabilities. Current assets are those assets which in the ordinary course of business can be or will be converted into cash within a short period of normally one accounting year.

LIST OF CURRENT OR WORKING CAPITAL ACCOUNTS
--

<i>Current Liabilities</i>	<i>Current Assets</i>
Bills Payable	Cash in hand
Sundry Creditors or Accounts Payable	Cash at bank
Accrued or Outstanding Expenses	Bills Receivable
Dividends Payable	Sundry Debtors or Accounts Receivable
Bank Overdraft	Short-term loans & advances
Short-term loans advances & deposits	Temporary or Marketable Investments

	Inventories
	Prepaid Expenses

Accrued Incomes

LIST OF NON-CURRENT OR PERMANENT CAPITAL ACCOUNTS

Permanent Liabilities	Permanent Assets
Equity Share Capital	Goodwill
Preference Share Capital	Land
Redeemable Preference Share Capital	Building
Debentures	Plant and Machinery
Long-term Loans	Furniture and Fittings
Share Premium Account	Trade Marks
Share Forfeited Account	Patent Rights

Profit and Loss Account (balance of profit, <i>i.e.</i> , credit balance)	Long-term investment
Capital Reserve	Debit Balance of Profit and Loss account
Capital Redemption Reserve	Discount on Issue of Shares
	Discount on Issue of Debentures
	Preliminary Expenses.

MEANING AND DEFINITION OF FUNDS FLOW STATEMENT

Funds Flow Statement is a method by which we study changes in the financial position of a business enterprise between beginning and ending financial statements dates. It is a statement showing sources and uses of funds for a period of time.

Foulke defines this statements as :

—A statement of sources and application of funds is a technical device designed to analyse the changes in the financial condition of a business enterprise between two dates.

In the words of Anthony —The funds flow statement describes the sources from which additional funds were derived and the use to which these sources were put.

Funds flow statement is called by various names such as Sources and Application of Funds Statement of Changes in Financial Position.

FUND FLOW STATEMENT, INCOME STATEMENT AND BALANCE SHEET

Funds flow statement is not a substitute of an income statement, *i.e.*, a profit and loss account, and a balance sheet. The Profit and Loss Account is a document which indicates the extent of success achieved by a business in earning profits.

A balance sheet is a statement of financial position or status of a business on a given date. It is prepared at the end of accounting period.

S.No.	Funds Flow Statement	Income Statement
1	It highlights the changes in the financial position of a business and indicates the various means by which funds were	It does not reveal the inflows and outflows of funds but depicts the

	obtained during a particular period and the ways to which these funds were employed.	items of expenses and income arrive at the figure of profit or loss.
2	It is complementary to income statement. Income statement helps the preparation of Funds Flow Statement.	Income statement is not prepared from Funds Flow Statement.
3	While preparing Funds Flow Statement	Only revenue items are considered.

	both capital and revenue items are	
	considered.	
	There is no prescribed format for	

4

preparing a Funds Flow Statement.

It is prepared in a prescribed format.

Difference Between Funds Flow Statement and Balance Sheet		
S.No.	Funds Flow Statement	Balance Sheet
1	It is a statement of changes in financial position and hence is dynamic in nature.	It is a statement of financial position on a particular date and hence is static in nature.
2	It shows the sources and uses of funds in a particular period of time.	It depicts the assets and liabilities at a particular point of time.
3	It is a tool of management for financial analysis and helps in making decisions.	It is not of much help to management in making decisions.

4	Usually, Schedule of Changes in Working Capital has to be prepared before preparing Funds Flow Statement.	No such schedule of Changes in Working Capital is required. Rather Profit and Loss Account is prepared.

USES, SIGNIFICANCE AND IMPORTANCE OF FUNDS FLOW STATEMENT

A funds flow statement is an essential tool for the financial analysis and is of primary importance to the financial management. The basic purpose of a funds flow statement is to reveal the changes in the working capital on the two balance sheet dates. It also describes the sources from which additional working capital has been financed and the uses to which working capital has been applied.

The significance or importance of funds flow statement can be well followed from its various uses given below:

1. It helps in the analysis of financial operations. The financial statements reveal the net effect of various transactions on the operational and financial position of a concern.
2. It throws light on many perplexing questions of general interest which otherwise may be difficult to be answered.
3. It helps in the formation of a realistic dividend policy
4. It helps in the proper allocation of resources.
5. It acts as a future guide.
6. It helps in appraising the use of working capital.
7. It helps knowing the overall creditworthiness of a firm.

LIMITATIONS OF FUNDS FLOW STATEMENT

1. It should be remembered that a funds flow statement is not a substitute of an income statements or balance sheet. It provides only some additional information as regards changes in working capital.
2. It cannot reveal continuous changes.
3. It is not an original statement but simply are-arrangement of data given in the financial statements.
4. It is essentially historic in nature and projected funds flow statement cannot be prepared with much accuracy.

5. Changes in cash are more important and relevant for financial management than the working capital.

PROCEDURE FOR PREPARING A FUNDS FLOW

STATEMENT The preparation of a funds flow statement consists of two parts:

1. Statement or Schedule of Charges in Working Capital.

2. Statement of Sources and Application of Funds.

Statement or Schedule of Changes in Working Capital

Working Capital means the excess of current assets over current liabilities. Statement of changes in working capital is prepared to show the changes in the working capital between the two balance sheet dates. This statement is prepared with the help of current assets and current liabilities derived from the two balance sheets.

-

As, Working Capital = Current Assets - Current Liabilities.

So,

- i. An increase in current assets increases working capital.
- ii. A decrease in current assets decreases, working capital.
- iii. An increase in current liabilities decreases working capital ; and
- iv. A decrease in current liabilities increases working capital.

Statement of Schedule of Changes in Working Capital				
<i>Effect on Working Capital</i>				
<i>Particulars</i>	<i>Previous Year</i>	<i>Current Year</i>	<i>Increase</i>	<i>Decrease</i>
<i>Current Assets:</i>				
Cash in hand				
Cash at bank				
Bills Receivable				
Sundry Debtors				
Temporary Investments				
Stocks/Inventories				
Prepaid Expenses				
Accrued Incomes				

Total Current Assets				
<i>Current Liabilities:</i>				
Bills Payable				
Sundry Creditors				
Outstanding Expenses				
Bank Overdraft				
Short-term advances				
Dividends Payable				

Proposed dividends*

Provision for taxation*

Total Current Liabilities

Working Capital (CA-CL)

Net Increase or Decrease

in Working Capital

Illustration:

Prepare a Statement of changes in Working Capital from the following Balance Sheets of SSM and Company Limited.

Balance Sheets as at December 31					
<i>Liabilities</i>	2015 Rs.	2016 Rs.	<i>Assets</i>	2015 Rs.	2016 Rs.
Equity Capital	5,00,000	5,00,000	Fixed Assets	6,00,000	7,00,000
Debentures	3,70,000	4,50,000	Long-term Investments	2,00,000	1,00,000
Tax Payable	77,000	43,000	Work-in-Progress	80,000	90,000
Accounts Payable	96,000	1,92,000	Stock-in-trade	1,50,000	2,25,000
Interest Payable	37,000	45,000	Accounts	70,000	1,40,000

			Receivable		
Dividend Payable	50,000	35,000	Cash	30,000	10,000
	1130000	1265000		1130000	1265000

Solution:

STATEMENT OF CHANGES IN WORKING CAPITAL				
			Effect on Working Capital	
Particulars	2006 Rs.	2007 Rs.	Increase Rs.	Decrease Rs.
Current Assets:				
Cash	30,000	10,000	---	20,000
Accounts Receivable	70,000	1,40,000	70,000	---
Stock-in-trade	1,50,000	2,25,000	75,000	---
Work-in-progress	80,000	90,000	10,000	---

	3,30,000	4,65,000	---	---
Current Liabilities :				
Tax Payable	77,000	43,000	34,000	---
Accounts Payable	96,000	1,92,000	---	96,000
Interest Payable	37,000	45,000	---	8,000
Dividend Payable	50,000	35,000	15,000	---
	2,60,000	3,15,000	---	---
Working Capital (CA-CL) Net	70,000	1,50,000	---	---
Increase in Working Capital	80,000	---	---	80,000
	1,50,000	1,50,000	2,04,000	2,04,000

Illustration

From the following balance sheets of Bharat Company prepare a statement show in changes in Working Capital.

	<i>31st Dec 2016 Rs.</i>	<i>31st Dec 2015 Rs.</i>
<i>Assets</i>		
Goodwill	5000	10000
Cash	70000	25000
Debtors	90000	98000
Closing Stock	120000	87000
Long-term Investments	10000	15000
Land	27000	15000
Preliminary Expenses	3000	5000
	325000	255000
<i>Liabilities</i>		
Trade Creditors	45000	50000

Bills Payable	35000	20000
Loans (Payable during 2017)	20000	---
Share Capital	150000	125000
Profit & Loss Account	75000	60000
	325000	255000

Statement showing changes in working capital

Particulars	2015 Rs.	2016 Rs.	Effect on Working Capital	
			Increase Rs.	Decrease Rs.
Current Assets:				
Cash	25000	70000	45000	
Debtors	98000	90000		8000
Closing stock	87000	120000	33000	
	210000	280000		
Current Liabilities:				
Trade creditors	50000	45000	5000	
Bills payable	20000	35000		15000

Loans (Payable during 2017)	---	20000		20000
	70000	100000		
Working Capital (CA-CL)	140000	180000		
Net increase in Working Capital	40000			40000
	180000	180000	83000	83000

Statement of Sources and Application of Funds

Funds flow statement is a statement which indicates various sources from which funds (Working capital) have been obtained during a certain period and the uses or applications to which these funds have been put during that period. Generally, this statement is prepared in two formats :

(a) Report Form

(b) T Form or An Account Form or Self Balancing Type.

Specimen of Report From of Funds Flow Statement

<i>Sources of Funds:</i>	
	<i>Rs.</i>
Funds from Operations	
Issue of Share Capital	
Raising of long-term loans	
Receipts from partly paid shares, called up	
Sales of non current (fixed) assets	
Non-trading receipts, such as dividends received	
Sale of Investments (long-term)	
Decrease in Working Capital (as per schedule of	
changes in Working Capital) Total	
<i>Applications or Uses of Funds:</i>	
Funds Lost in Operations	
Redemption of Preference Share Capital	

Redemption of Debentures

Repayment of long-term loans

Purchase of non-current (fixed) assets

Purchase of long-term Investments

Non-trading payments

Payments of dividends*

Payment of tax*

Increase in Working Capital (as per schedule of
changes in working capital)

Total

T Form or An Account Form or Self Balancing Type

Funds Flow Statement *(For the year ended.)*

<i>Sources</i>	<i>Rs.</i>	<i>Applications</i>	<i>Rs.</i>
Funds from Operations		Funds lost in Operations	
Issue of Share Capital		Redemption of Preference Share Capital	
Issue of Debentures		Redemption of Debentures	
Raising of long-term loans		Repayment of long-term loans	
Receipts from partly paid shares, called up		Purchase of non-current (fixed) assets	
Sale of non-current (fixed) assets		Purchase of long-term investments	
Non-trading receipts such as dividends		Non-trading payments	
Sale of long-term Investments		Payment of Dividends*	
Net Decrease in Working Capital		Payment of tax*	
		Net Increase in Working Capital	

* Note. Payment of dividend and tax will appear as an application of funds only when the items are appropriations of profits and not current liabilities.

SOURCES OF FUNDS

The following are the sources from which funds generally flow (come), into the business :

Funds From Operations or Trading Profits: Trading profits or the profits from operations of the business are the most important and major source of funds. Sales are the main source of inflow of funds into the business as they increase current assets (cash, debtors or bills receivable) but at the same time funds flow out of business for expenses and cost of goods sold.

Funds from operations can also be calculated by preparing Adjusted Profit and

Loss Account as follows:

Adjusted Profit and Loss Account			
	Rs.		Rs.
To Depreciation & Depletion or amortization of fictitious and intangible assets, such as: Goodwill, Patents, Trade Marks, Preliminary Expenses etc.		By Opening Balance (of P & L A/c)	
To Appropriation of Retained Earnings, such as : Transfers to General Reserve, Dividend Equalisation Fund, Sinking Fund, etc.		By Transfers from excess provisions	
To Loss on sales of any non-current or fixed asset		By Appreciation in the value of fixed assets	
To Dividends (including interim dividend)		By Dividends received	
To Proposed Dividend (if not taken as a current liability)		By Interest on investments	

To Provision for taxation (if not taken as a current liability)		By Profit on sale of fixed or non-current assets	
To Closing balance (of P & L A/c)		By Funds from Operations (balancing figure in case debit side exceeds credit side)	
To Funds lost in Operations (balancing figure, in case credit side exceeds the debit side)			

Illustration:

SSM Company presents the following information and you are required to calculate funds from operations.

Profit And Loss Account			
	Rs.		Rs.
To Expenses:		By Gross profit	2,00,000
Operation	1,00,000	By Gain on sale of plant	20,000
Depreciation	40,000		
To Loss on Sale of building	10,000		
To Advertisement Suspense A/c	5,000		
To Discount (allowed to customers)	500		
To Discount on Issue of Shares written off	500		
To Goodwill	12,000		

To Net Profit	52,000		
	2,20,000		2,20,000

Solution:

Calculation of Funds from Operations

	Rs.	Rs.
Net profit (as given)		52000
Add: Non-fund or non-operating items which have been debited to P/L A/c:		
Depreciation	40000	
Loss on sale of building	10000	
Advertisement written off	5000	

Discount on issue of shares written off	500	
Good will written off	12000	67500
		119500
Less: Non-fund or Non-operating items which have been credited to P/L A/c: Gain on sale of plant	20000	20000
Funds from operations		99500

APPLICATIONS OR USES OF FUNDS

1. Funds lost in operations
2. Redemption of preference share capital
3. Repayment of long-term loans and redemption of debentures
4. Payments of dividends and Tax
5. Any other Non-trading payment.

Illustration:

From the following Balance sheets of the company for the ending 31st December 2016 and 31st December 2017, Prepare schedule of changes in working capital and a statement showing sources and application of funds.

<i>Liabilities</i>	<i>2016</i>	<i>2017</i>	<i>Assets</i>	<i>2016</i>	<i>2017</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Share capital	300000	400000	Plant & Machinery	50000	60000
Sundry creditors	100000	70000	Furniture & Fixtures	10000	15000
P & L A/c	15000	30000	Stock in trade	85000	105000
			Debtors	160000	150000
			Cash	110000	170000
	415000	500000		415000	500000

Solution:

Schedule of Changes in Working Capital				
	2016	2017	Effect on Working Capital	
	Rs.	Rs.	Increase	Decrease
<i>Current Assets</i>			Rs.	Rs.
Cash	110000	170000	60000	---
Debtors	160000	150000	---	10000
Stock-in-Trade	85000	105000	20000	---
	355000	425000	---	---
<i>Current Liabilities</i>				
Sundry Creditors	100000	70000	30000	---
	100000	70000		
Working capital (C.A. – C.L.)	255000	355000	---	---
Net Increase in working capital	100000	---	---	100000
	355000	355000	110000	110000

Statement of source and application of funds

for the year end 31.12.2017

Sources	Rs.	Applications	Rs.
Issue of share capital	100000	Purchase of plant & machinery (60000-50000)	10000
Funds from operations	15000	Purchase of furniture & fixtures(15000-10000)	5000
		Net increase in working capital	100000
	115000		115000

Funds from operations:

Balance of P/L A/c 2017	30000
Less: Bal. of P/L A/c In the beginning of the year	15000
Funds from Operations	15000

Illustration:

From the following Balance Sheet of Mr. A, Prepare a schedule of changes in work capital and funds flow statement:

<i>Liabilities</i>	<i>2016</i>	<i>2017</i>	<i>Assets</i>	<i>2016</i>	<i>2017</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Capital	63,000	1,00,000	Cash	15,000	20,000
Long-term Borrowings	50,000	60,000	Debtors	30,000	28,000
Trade Creditors	42,000	39,000	Stock-in-trade	55,000	72,000
Bank Overdraft	35,000	25,000	Land and Buildings	80,000	1,00,000
Outstanding Expenses	5,000	6,000	Furniture	15,000	10,000
	195000	230000		195000	230000

Solution:

Schedule of Changes in Working Capital				
	<i>2016</i>	<i>2017</i>	<i>Effect on Working Capital</i>	
	<i>Rs.</i>	<i>Rs.</i>	<i>Increase</i>	<i>Decrease</i>
<i>Current Assets</i>			<i>Rs.</i>	<i>Rs.</i>
Cash	15,000	20,000	5,000	
Debtors	30,000	28,000		2,000
Stock-in-Trade	55,000	72,000	17,000	
	1,00,000	1,20,000		
<i>Current Liabilities</i>				
Trade Creditors	42,000	39,000	3,000	
Bank overdraft	35,000	25,000	10,000	
Outstanding Expenses	5,000	6,000		1,000
	82,000	70,000		
Working capital (C.A. – C.L.)	18000	50000		
Net Increase in working capital	32000			32000
	50000	50000	35000	35000

FUND FLOW STATEMENT

Sources	Rs.	Applications	Rs.
Raising of long-term borrowings (60000- 50000)	10000	Purchases of land & Building (100000- 80000)	20000
Sales of furniture (15000-10000)	5000	Net increase in working capital	32000
Funds from operations	37000		
	52000		52000

Working Notes:**Long term Borrowings A/c**

	Rs.		Rs.
To Balance C/d	60000	By Balance b/d	50000
		By Cash (balancing figures)	10000
	60000		60000

Furniture A/c

	Rs.		Rs.
To Balance b/d	15000	By cash-sale (balancing figure)	5000
		By Balance c/d	10000
	15000		15000

Land and Building A/c

	Rs.		Rs.
To Balance b/d	80000		
To cash-purchase (Bal.Fig.)	20000	By Balance c/d	100000
	100000		100000

Capital A/c

	Rs.		Rs.
To balance c/d	100000	By balance b/d	63000
		By profit (Bal.Fig.)	37000
	100000		100000

Illustration:

From the following balance sheets and additional information given, you are required to calculate funds operations for the year ended 2017.

Liabilities	2016 Rs.	2017 Rs.	Assets	2016 Rs.	2017 Rs.
Share capital	100000	150000	Land & buildings	100000	95000
General reserve	30000	30000	Plant & Machinery	80000	90000

Profit & loss a/c	20000	22000	Stocks	70000	110000
6% Debentures	80000	80000	Debtors	20000	25000
Creditors	65000	58000	Investments	---	10000
Provision for tax	5000	10000	Cash	10000	10000
			Goodwill	20000	10000
	300000	350000		300000	350000

Additional information:

1. During 2017, dividends of Rs. 15000 were paid.
2. Depreciation written off plant and machinery amounted to Rs. 6000 and no depreciation has been charged on land and buildings.
3. Provision for tax made during the year Rs. 5000.
4. Profit on sale of machinery Rs. 2000.

Solution:

Calculation of funds from operations		
	Rs.	Rs.
Closing balance of P/L A/c given in the B/S		22000
Add: Non-fund or non operating items already debited to P/L A/c:		
Depreciation	6000	
Dividends	15000	
Provision for tax	5000	
Goodwill	10000	36000
Less: Non-fund or non operating items already credited to P/L A/c:		
Profit on sale of machinery	2000	
Opening balance of P/L A/c (given in B/S)	20000	22000
Funds from operations		36000

Provision for tax has been treated as a non current liability.

Goodwill written off during the year is Rs. 20000- Rs. 10000 = Rs. 10000

Alternatively:

ADJUSTED PROFIT AND LOSS ACCOUNT			
	Rs.		Rs.
To depreciation	6000	By opening balance	20000
To dividends	15000	By profit on sale of machinery	2000
To provision for tax	5000	By funds from operations (bal.fig.)	36000
To goodwill	10000		
To closing balance	22000		

	58000		58000
--	-------	--	-------

Illustration

From the following balance sheets of A & Co Ltd., you are required to show any increase or decrease in working capital and sources and applications thereof:

Liabilities	As at 31.12.16 Rs.	As at 31.12.17 Rs.	Assets	As at 31.12.16 Rs.	As at 31.12.17 Rs.
Equity share capital	240000	360000	Land	166200	339600
Share premium	24000	36000	Machinery	106800	153900
General reserve	18000	27000	Furniture	7200	4500
Profit and Loss Account	58500	62400	Stock	66300	78000
8% Debentures	---	78000	Debtors	109500	117300

Provision for taxation	29400	32700	Bank	14400	12000
Creditors	100500	109200			
	470400	705300		470400	705300

Depreciation written off during the year:

On machinery Rs. 38400

On furniture Rs. 1200

Solution:

	2016	2017	<i>Increase in</i>	<i>Decrease</i>
	Rs.	Rs.	<i>W.C.</i>	<i>in W.C.</i>
<i>Current Assets:</i>				
Stock	66300	78000	11700	
Bank	109500	117300	7800	
Debtors	14400	12000	---	
	190200	207300		2400
<i>Current Liabilities:</i>				
	100500	109200		8700
	29400	32700		3300
	129900	141900		
Working Capital	60300	65400		
	5100			5100
Net Increase in W.C.				
	65400	65400	19500	19500

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS

Sources	Rs.	Applications	Rs.
Issue of share capital	120000	Purchase of land & building	173400
Share premium	12000	Purchase of machinery	85500
Issue of debentures	7 8 0 0 0	Net increase in W.C.	5100
Sale of furniture	1500		
Funds from operations	52500		
	264000		264000

Working Notes:

Machinery A/c			
	Rs.		Rs.
To balance B/d	106800	By depreciation	38400
To purchase during the year (Bal. Fig.)	85500	By balance c/d	153900
	192300		192300

Land & Buildings A/c

To balance B/d	166200	By balance c/d	339600
To purchase during the year (Bal. Fig.)	173400		
	339600		339600
Furniture A/c			
To balance B/d	7200	By depreciation	1200
		By cash-sale (bal. fig.)	1500
		By balance c/d	4500
	7200		7200

Adjusted Profit & Loss A/c

To transfer to Reserves	9000	By balance b/d	58500
To Depreciation on machinery	38400	By funds from operation	52500
To Depreciation on furniture	1200		
To Balance C/d	62400		
	111000		111000

Illustration:

The following are summarized balance sheets of Star Ltd., on 31st Dec. 2016 and 31st Dec. 2017.

LIABILITIES	2016	2017	ASSETS	2006	2007
Share Capital	600000	800000	Plant & Machinery (at cost)	Rs.	Rs.
Debentures	200000	300000	Land & Building (at cost)	400000	645000

Profit and Loss A/c	125000	250000	Stock	300000	400000
Creditors	115000	90,000	Bank	300000	350000
Provision for bad and doubtful debts	6000	3,000	Preliminary Expenses	20000	40000
Provision for Depreciation			Debtors	7000	6000
-On Land & Building	20000	24,000		69000	61000
On Plant & Machinery	30000	35,000			
	1096000	1502000		1096000	1502000

Additional Information :

1. During the year a part of machinery costing Rs. 70,000 (accumulated depreciation thereon Rs. 2,000) was sold for Rs. 6,000.
2. Dividends of Rs. 50,000 were paid during the year.

(a) Changes in Working Capital for 2007.

(b) Funds Flow Statement

Solution:**Statement of Changes in Working Capital**

	2016 Rs.		2017 Rs.	<i>Increase in W.C.</i>	<i>Decrease in W.C.</i>
<i>Current Assets:</i>					
Stock	300000		350000	50000	
Bank	20000		40000	20000	
Debtors	69000		61000		8000
		389000	451000		
<i>Current Liabilities:</i>					
		115000	90000	25000	
Creditors					
		6000	3000	3000	
Provision for bad and doubtful debts					
		121000	93000		
Working Capital		268000	358000		
		90000	----		90000
Net Increase in W.C.					
		358000	358000	98000	98000

Funds Flow Statement

<i>Sources</i>	<i>Rs.</i>	<i>Applications</i>	<i>Rs.</i>
----------------	------------	---------------------	------------

Issue of share capital	200000	Purchase of plant & machinery	315000
Issue of debentures	100000	Purchase of land & building	100000
Sale of machinery	6000	Dividends Paid	50000
Funds from operations	249000	Net increase in Working Capital	90000
	555000		555000

Provision for Depreciation on Plant & Machinery A/c

	Rs.		Rs.
To Plant & Machinery A/c (Dep. On machinery sold)	2000	By Balance b/d	30000
To Balance c/d	35000	By Adjusted P/L A/c (Dep. Provided) (bal. fig.)	7000
	37000		37000

Provision for Depreciation on Land & Building A/c

To Balance c/d	24000	By Balance b/d	20000
		By Adjusted P/L A/c (bal. fig.)	4000
	24000		24000

Plant & Machinery A/c			
To Balance b/d	4,00,000	By Cash (sale)	6,000
ToCash-Purchases(bal.fig)	3,15,000	By-Provision for Dep.	2,000
		By Adjusted P/L A/c (Loss on sale)	62,000
		By Balance c/d	6,45,000
	7,15,000		7,15,000
Adjusted Profit and Loss Account			
To provision for depreciation:		By balance c/d	125000
Plant & machinery	7000	By Funds from operations	249000
Land and building	4000		
ToPreliminaryExpenses written off	1000		
To Dividend	50000		
To Loss on sale of machinery	62000		
To Balance c/d	250000		
	374000		374000

CASH FLOW STATEMENT

INTRODUCTION

Cash plays a very important role in the entire economic life of a business. Recognising the importance of cash flow statement, the Institute of Chartered Accountants of India (ICAT) issued. AS-3 Revised : Cash flow Statements in March, 1997.

Meaning:

Cash Flow Statement is a statement which describes the inflows (sources) and outflows (uses) of cash and cash equivalents in an enterprise during a specified period of time. A cash flow statement summarises the causes of changes in cash position of a business enterprise between dates of two balance sheets. According to AS-3 (Revised), an enterprise should prepare a cash flow Statement and should present it for each period for which financial statements are prepared. The terms cash, cash equivalents and cash flows are used in this statement with the following meanings:

1. Cash comprises cash on hand and demand deposits with banks.
2. Cash equivalents are short term, highly liquid investments.
3. Cash flows are inflows and outflows of cash and cash equivalents.

CLASSIFICATION OF CASH FLOWS

According to AS-3 (Revised) cash flows are classified into three main categories.

1. Cash flows from operating activities.
2. Cash flows from investing activities.
3. Cash flows from financing activities.

- 1. Cash Flows from Operating Activities:** Operating activities are the principal revenue-producing activities of The enterprise and other activities that are not investing or financing activities. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to maintain the operating capability of the enterprise, pay dividends.

Examples of cash flows from operating activities are:

- i. Cash receipts from the sale of goods and the rendering of services;
 - ii. Cash receipts from royalties, fees, commissions, and other revenue;
 - iii. Cash payments to suppliers of goods and services;
 - iv. Cash payments to and on behalf of employees.
 - v. Cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits;
 - vi. Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities ; and
 - vii. Cash receipts and payments relating to futures contracts, forward contracts, option contracts, and swap contracts when the contracts are held for dealing or trading purposes.
- 2. Cash Flows From Investing Activities:** Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash

equivalents. The separate disclosure of cash flows arising from investing activities.

- a) Cash payments to acquire fixed assets (including intangibles). These payments include those relating to capitalised research & development costs and self constructed fixed assets;
- b) Cash receipts from disposal of fixed assets.

3. **Cash Flows From Financing Activities:** Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

- a) Cash proceeds from issuing shares or other similar instruments :
- b) Cash proceeds from issuing debentures, loans, notes, bonds, and other short-or long-term borrowings; and
- c) Cash repayments of amounts borrowed such as redemption of debentures, bonds, preference shares.

FORMAT OF CASH FLOW STATEMENT

A S - 3 (Revised) has not provided any specific format for preparing a cash flow statement. A widely used format of cash flow statement (Direct Method) is given below:

Cash Flow Statement

(for the year ended .. .)

	<i>Rs.</i>	<i>Rs.</i>
Cash Flows From Operating Activities Either		

Cash receipts from customers		
Cash paid to suppliers and employees		
Cash generated from operations		
Income-tax paid		
Cash flow before extraordinary items		
Extraordinary items		
Net cash from (used in) Operating activities		
Or		
Net profit before tax and extraordinary items		

Adjustments for non-cash and non-operating items		
(List of individual items such as depreciation, foreign exchange loss, loss on sale of fixed assets, interest income, dividend income, interest expense etc.)		
Operating profit before working capital changes		
Adjustments for changes in current assets and current liabilities		
(List of individual items)		
Cash generated from (used in) operations before tax		
Income tax paid		
Cash flow before extraordinary items		
Extraordinary items (such as refund of tax)		
<i>Net cash from (used in) operating activities</i>		
Cash Flows From Investing Activities		
Individual Items of cash inflows and outflows from financing activities		
(such as) purchase/sale of fixed assets, purchase or sale of investments, interest received, dividend received etc.		

Net Cash from (used in) investing activities

Cash Flows From Financing Activities

Individual items of cash inflows and outflows from financing activities

(such as) proceeds from issue of shares, long-term borrowings, repayments of long-term borrowings, interest paid, dividend paid etc.

Net cash from (used in) financing activities

Net Increase (Decrease) in cash and cash equivalents

Cash and cash equivalents at the beginning of the period

Cash and cash equivalents at the end of the period		

Format of Cash Flow Statement (Indirect Method):

Cash Flow Statement	
<i>(for the year ended.....)</i>	
XYZ Ltd.	Rs.
A. Cash Flow From Operating Activities	
Net Profit/Loss before tax and extraordinary items Adjustments for:	
Depreciation	
Gain/Loss on sale of fixed assets	
Foreign exchange	
Miscellaneous expenditure written off	
Investment income	

Interest	
Dividend	
Operating profit before working capital changes Adjustments for:	
Trade and other receivables	
Inventories	
Trade Payables	
Cash generated from operations	
Interest paid	
Direct taxes paid	
Cash flow before items	
Extraordinary items	
<i>Net Cash from Operating Activities</i>	
B. Cash Flow From Investing Activities	
Purchase of fixed assets	

Sales of fixed assets

--	--

Purchase of investments	
Sale of investments	
Interest received	
Dividend received	
<i>Net Cash from/used in investing activities</i>	
C. Cash Flow From Financing Activities	
Proceeds from issue of share capital	

Proceeds from long-term borrowings/banks

Payment of long-term borrowings

Dividend paid

Net Cash from /used in financing activities

Net Increase/Decrease in Cash and Cash Equivalents

Cash and Cash Equivalents as at(Opening Balance)

Cash and Cash Equivalents as at(Closing Balance)

COMPARISON BETWEEN FUNDS FLOW STATEMENT AND CASH FLOW STATEMENT

The term 'funds' refers to working capital and a statement of changes in the financial position prepared on this basis is called a funds flow statement. A cash flow statement is to summarise the causes of changes in the financial position of a business.

1. Funds flow statement is based on a wider concept of funds, i.e., working capital, while cash flow statement is based on the narrower concept of funds).
2. Funds flow statement is based on accrual basis of accounting while cash flow statement is based on cash basis of accounting.
3. A funds flow statement current assets and current liabilities, these appear separately in a schedule of changes in working capital No such schedule of changes in working capital is prepared for a cash flow statement and changes in

all assets and liabilities fixed as well as current, are summarised in the cash flow statement.

4. A cash flow statement is prepared by classifying all cash inflows and outflows in terms of operating, investing and financing activities. No such classification is made in a funds flow statement.
5. Funds flow statement explains the reasons for change in working capital whereas cash flow statement explains the reasons for change in cash and cash equivalents.
6. Funds flow statement is useful in planning intermediate and long-term financing while a cash flow statement is more useful for short-term analysis and cash planning of the business.

Difference Between Funds Flow Statement and Cash Flow Statement		
<i>Basis of Difference</i>	<i>Funds Flow Statement</i>	<i>Cash Flow Statement</i>
Basis of Concept	It is based on a wider concept of funds, i. e. <i>working capital</i> .	It is based on a narrower concept of funds, <i>i.e.</i> cash.
Basis of Accounting	It is based on accrual basis of accounting.	It is based on cash basis of accounting.
Schedule of changes	Schedule of changes in	No such schedule of

in working Capital	working capital is prepared to show the changes in current assets and current liabilities.	changes in working capital is prepared.
Method of Preparing	Fund Flow Statement reveals the sources and applications of funds. The net difference between sources and applications of funds represents net increase or	It is prepared by classifying all cash "Inflows and outflows in terms of operating, investing and financing activities. The net difference represents the net

	decrease in working capital.	increase or decrease in cash and cash equivalents.
Basis of Usefulness	It is useful in planning intermediate and , long term financing.	It is more useful for short-term analysis and cash planning of the business.
Basis of Improvement	Improvement in funds (working capital) position of a firm does not necessarily lead , to improvement in cash position.	Improvement in cash position results "in improvement of funds (working capital) position of the firm.
Cash and Cash Equivalents	„ The opening and closing balances of cash are included in the schedule of changes in working capital.	The balances of cash and cash equivalents at the beginning and at the end of the period are shown in the cash flow statement.

USES AND SIGNIFICANCE OF CASH FLOW STATEMENT

It is an essential tool of financial analysis for short-term planning.

1. A cash flow statement is based on the cash basis of accounting, it is very useful in the evaluation of cash position of a firm.

2. A projected cash flow statement can be prepared in order to know the future cash position of a concern so as to enable a firm to plan and coordinate its financial operations properly.
3. A comparison of the historical and projected cash flow statements can be made so as to find the variations and deficiency or otherwise in the performance so as to enable the firm to take immediate and effective action.

4. A series of intra-firm and inter-firm cash flow statements reveals whether the firm's liquidity (short-term paying capacity) is improving or deteriorating over a period of time and in comparison to other firms over a given period of time.
5. Cash flow statement helps in planning the repayment of loans, replacement of fixed assets.
6. It better explains the causes for poor cash position in spite of substantial profits in a firm by throwing light on various applications of cash made by the firm.
7. Cash flow analysis is more useful and appropriate than funds flow analysis for short-term financial analysis as in a very short period.
8. Cash flow statement prepared according to AS-3 (Revised) is more suitable than making comparisons than the funds flow statement.
9. Cash flow statement provides information of all activities classified under operating, investing and financing activities.

LIMITATIONS OF CASH FLOW STATEMENT

- i. As cash flow statement is based on cash basis of accounting, it ignores the basic accounting concept of accrual basis.
- ii. Some people feel that as working capital is a wider concept of funds, a funds flow statement provides a more complete picture than cash flow statement.
- iii. Cash flow statement is not suitable for judging the profitability of a firm as non-cash charges are ignored while calculating cash flows from operating activities.

- iv. A cash flow statement is not a substitute of an income statement, it is complementary to an income statement. Net cash flow does not mean the net income of a firm.
- v. A cash flow statement is also not a substitute of funds flow statement which provides information relating to the causes that lead to increase or decrease in working capital.

- vi. A comparative study of cash flow statements may give misleading results.

PROCEDURE FOR PREPARING A CASH FLOW STATEMENT

Cash flow statement is not a substitute of income statement, i.e., a profit and loss account, and a balance sheet. It provides additional information and explains the reasons for changes in cash and cash equivalents, derived from financial statements at two points of time.

The preparation of a cash flow statement involves the following steps:

Step 1	Compute the net increase or decrease in cash and cash equivalents by making a comparison of these accounts given in the comparative balance sheets.
Step 2	Calculate the net cash flow provided (used in) operating activities by analysing the profit and loss account, balance sheet and additional information. There are two methods of converting net income into net cash flows from operating activities : the direct method and the indirect method. These methods have been discussed separately in this chapter.
Step 3	Calculate the net cash flow from investing activities.
Step 4	Calculate the net cash flow from financing activities.

- Step 5** Prepare a formal cash flow statement highlighting the net cash flow from (used in) operating, investing and financing activities separately.
- Step 6** Make an aggregate of net cash flows from the three activities and ensure that the total net cash flow is equal to the net increase or decrease in cash and cash equivalents as calculated in Step 1.
- Step 7** Report significant non-cash transactions that did not involve cash or cash equivalents in a separate schedule to the cash flow statement e.g., purchase of machinery against issue of share capital or redemption of debentures in exchange for share capital.
-

METHODS OF CALCULATING CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

There are two methods of reporting cash flows from operating activities: the direct method and the indirect method.

1. The Direct Method

Under the direct method, cash receipts (inflows) from operating revenues and cash payments (outflows) for operating expenses are calculated to arrive at cash flows from operating activities. The difference between the cash receipts and cash payments is the net cash flow provided by (or used in) operating activities. The following are the examples of cash receipts and cash payments (called cash flows) resulting from activities:

- a)* Cash receipts from the sale of goods and the rendering of services;
- b)* Cash receipts from royalties, fees, commissions and other revenues;
- c)* Cash payment to suppliers for goods and services;
- d)* Cash payment to and on behalf of employees;
- e)* Cash receipts and cash payment of an insurance enterprise for premiums and claims, annuities and other policy benefits;
- f)* Cash payments or refund of income taxes unless they can be specifically identified with financing and investing activities; and \

- g)* Cash receipts and payments relating to future contracts, forward contracts, option contracts and swap contracts when the contracts are held for dealing or trading purposes.

The information about major classes of gross cash receipts and gross cash payments may be obtained either:

- i. From accounting records of the enterprise; or

- ii. 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 statement of profit and loss for :
- a) Changes during the period in inventories and operating receivables and payables;
 - b) Other non-cash items; and
 - c) Other items for which the cash effects are investing or financing cash flows.

The following calculation are given to illustrate the point with imaginary figures :

	Rs.
(i) Credit Sales given	670000
<i>Add:</i> Opening Balance of Trade Debtors (Debtors + B/R)	80000
	750000
<i>Less:</i> Closing Balance of Trade Debtors	110000
Cash received from debtors/customers	640000

(ii) Cost of Goods Sold (given)	450000
<i>Add:</i> Closing Stock	30000
	480000
<i>Less:</i> Opening Stock	20000
Purchases on accrual basis	460000
(iii) Credit Purchases	460000
<i>Add:</i> Opening Balance of Trade Creditors (Creditors + B/P)	60000
	520000
<i>Less:</i> Closing Balance of Trade Creditors	90000
Cash paid to creditors/suppliers	430000
	75000
(iv) Salary as charged to Profit and Loss A/c	

<i>Add:</i> Opening Balance of Outstanding Salary	10000
	85000
<i>Less:</i> Closing Balance of Outstanding Salary	5000
Cash paid to employees on account of salaries	80000

Illustration:

From the following information, calculate cash flows from operating activities.

	<i>Rs.</i>
Total sales for the year	250000
Total purchases for the year	200000
Trade debtors as on 1.7.2007	12000
Trade creditors as on 1.7.2007	14500

Trade debtors as on 30.6.2008	20800
Trade creditors as on 30.6.2008	21600
Total operating expenses for the year	10200
Outstanding expenses as on 1.7.2007	1800
Prepaid expenses as on 1.7.2007	1500
Outstanding expenses as on 30.6.2008	2400
Prepaid expenses as on 30.6.2008	2200
Income tax paid during the year	2000

Solution:

Cash flows from operating activities

Cash receipts from customers (working Note: 1)	241200
Cash paid to supplies and employees (working note: 2)	203200
Cash generated from operations	38000

Income tax paid	2000

Net cash flows from operating activities 36000

Working notes:

Calculate of cash receipts from customers:

1. Calculation of cash receipts from customers :	Rs.
Sales for the year	2,50,000
<i>Add</i> : Trade debtors as on 1.7.2007	12.000
	2,62,000
<i>Less</i> : Trade debtors as on 30.6.2008	20.800
Cash receipts from customers	2.41.200
2. Calculation of cash paid to suppliers and employees :	
Total purchases for the year	2,00,000

<i>Add</i> : Trade creditors as on 1.7.2007	14.500
	2,14,500
<i>Less</i> : Trade creditors as on 30.6.2008	21.600
Cash paid to creditors for purchase of goods (a)	1.92.900
Total operating expenses for the year	10,200
<i>Add</i> : Outstanding expenses as on 1.7.2007	1.800
	12,000
<i>Less</i> : Outstanding expenses as on 30.6.2008	2.400
	9,600
<i>Add</i> : Prepaid expenses as on 30.6.2008	2.200
	11,800
<i>Less</i> : Prepaid expenses as on 1.7.2007	1.500
Cash paid for services and expenses (b)	10.300
Cash paid to suppliers and employees (a+b) or (1,92,900 + 10,300)	203200

--	--

Illustration:

From the following balance sheets and additional information of ABC Ltd., find out cash crating activities.

Liabilities	31.3.2007 Rs.	31.3.2008 Rs.	Assets	31.3.2007 Rs.	31.3.2008 Rs.
Equity Share Capital	60,000	70,000	Goodwill	20,000	16,000
General Reserve	20,000	30,000	Machinery	82,000	1,08,000
10% Debentures	42,000	50,000	10% Investments	6,000	16,000
Profit and Loss A/c	---	14,000	Stock	8,000	34,000
Sundry Creditors	17,000	25,000	Debtors	4,000	15,000
Provision for Depreciation on Machinery	18,000	26,000	Cash and Bank	24,000	26,000
			Discount on Debentures	1000	---
			Profit and Loss A/c	12,000	---
	1,57,000	2,15,000		1,57,000	2,15,000

Additional Information :

- (a) Debentures were issued on 31st March, 2008.

(b) Investment were made on 31st March, 2008. Solution

Increase in stock Increase in debtors

Net Cash Flow from Operating Activities

CASH FLOW FROM OPERATING ACTIVITIES		
	Rs.	Rs.
Increase in the balance of profit and loss account (14,000 + 12,000 loss)		26000
Add : Non-cash and non-operating items which have been Dr. to P/L A/c		
Transfer to general reserve (30,000 - 20,000)	10000	
Provision for depreciation (26,000 - 18,000)	8000	
Goodwill written off (20,000 - 16,000)	4000	
Discount on debentures written off	1000	
Interest on debentures (10% of 42,000)	4200	27200
Less : Non-cash and non-operating items which have been Cr. to P/L A/c :		53200
Interest on investments (10% of 6000)		(600)
Operating profit before working capital changes		52600
Add : Decrease in accounts of current assets except cash and increase in current liabilities		
Increase in sundry creditors (25000-17000)		8000
Less : Increase in accounts of current assets and decrease in current liabilities :		60600
Increase in stock	26000	
Increase in debtors	11000	(37000)
Net cash flow from operating activities		23600

Illustration:**CASH FLOWS FROM INVESTING ACTIVITIES**

Calculate net cash flows from investing activities from the following information:

	31.3.2016	31.3.2017
Buildings (w.d.v.)	600000	750000

Additional information:

Building costing Rs. 100000 on which Rs. 30000 had accumulated as depreciation was sold Rs.

60000.

Depreciation charged on buildings for the year ended 31.3.2017 Rs. 50000.

Solution:

Building A/c			
	Rs.		Rs.
To balance b/d	600000	By cash (sale)	60000
To cash (purchase – bal.fig.)	270000	By P/L a/c (loss)	10000
		By depreciation	50000
		By balance c/d	750000
	870000		870000

CALCULATION OF NET CASH FLOWS FROM INVESTING ACTIVITIES

	Rs.	Rs.
Sale of buildings	60000	
Purchase of buildings	(270000)	
Net cash used in investing activities		(210000)

Illustration:**CASH FLOWS FROM FINANCING ACTIVITIES**

From the information given below, calculate cash flows from financing activities.

	2016 Rs.	2017 Rs.
Equity share capital	200000	300000
8% debentures	100000	50000
Securities premium	20000	30000
Bank loan (long-term)	---	100000

Additional information: Interest paid on debentures Rs. 8000.

Solution:

CALCULATION OF CASH FLOWS FROM FINANCING ACTIVITIES		
	Rs.	Rs.
Issue of share capital	100000	
Redemption of debentures	(50000)	
Proceeds from securities premium	10000	
Raising of Bank Loan	100000	
Interest on Debentures paid	(8000)	
Net Cash Flows From Financing Activities		152000

Illustration:

From the summary Cash Amount of Sunny Ltd. prepare Cash Flow Statement for the year ended 31st March, 2017 in accordance with AS-3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account

(For the year ended 31.3.2017)

Receipts	Rs. '000	Payments	Rs. '000
Balance on 1.4.2007	100	Payment of suppliers	4000
Issue of equity shares	600	Purchase of fixed assets	400
Receipts from customers	5600	Overhead expenses	400
Sale of fixed assets	200	Wage and salaries	200
		Taxation	500
		Dividend	100
		Repayment of bank loan	600
		Balance on 31.3.2008	300
	6500		6500

CASH FLOW STATEMENT

(for the year ended 31.3.2017)

	Rs. '000	Rs. '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	5600	
Cash paid to suppliers and employees (4000+400+200)	(4600)	

Cash generated from operations	1000	
Income tax paid	(500)	
Cash flow from operating activities		500
CASH FLOW FROM INVESTING ACTIVITIES		
Sale of fixed assets	200	
Purchase of fixed assets	(400)	
Net cash used in investing activities		(200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of equity shares	600	
Dividend paid	(100)	
Repayment of bank loan	(600)	
Net cash used in financing activities		(100)
Net increase in cash and cash equivalents		200
Cash and cash equivalents at the beginning of the period		100
Cash and cash equivalents at the end of the period		300

Illustration

The following details are available from a company.

	31-12-06	31-12-07		31-12-06	31-12-07
	Rs.	Rs.		Rs.	Rs.
Share Capital	70,000	74,000	Cash	9,000	7,800
Debentures	12,000	6,000	Debtors	14,900	17,700
Reserve for doubtful debts	700	800	Stock	49,200	42,700
Trade Creditors	10,360	11,840	Land	20,000	30,000

P/L A/c	10,040	10560	Goodwill	10,000	5,000
	103100	103200		103100	103200

In addition, you are given :

Dividend paid total Rs. 3,500.

Land was purchased for Rs. 10,000.

Amount provided for amortisation of goodwill Rs. 5,000.

Debentures paid off Rs. 6,000.

Prepare Cash Flow Statement,

Solution:

Cash Flow Statement

for ended 31st December, 2007)

CASH FLOWS FROM OPERATING ACTIVITIES	Rs.	Rs.
Increase in the balance of P/L A/C	520	
Adjustments for non-cash and non-operating items:		
Reserve for Doubtful Debts	100	
Dividend	3500	
Goodwill written off	5000	
Operating Profit before working capital changes	9120	
Adjustments for changes in current operating assets and liabilities:		
Increase in Trade Creditors	1480	
Increase in Debtors	(2800)	
Decrease in Stock	6500	
Cash generated from operations	14300	
Income tax paid	---	

Net cash from operating activities		14300
Cash Flows from Investing Activities		
Purchase of Land	(10000)	
Net cash used in investing activities		(10000)
Cash Flows from Financing Activities		
Proceeds from the issue of Share	4000	
Capital Redemption of Debentures	(6000)	
Dividend paid	(3500)	
Net cash used in financing activities		(5500)
Net Decrease in cash and cash equivalents		(1200)
Cash and cash equivalents at the beginning of the period		9000
Cash and cash equivalents at the end of the period		7800

Illustration: The Balance Sheet of ABC Ltd. is as follows :

Liabilities	1.1.07 (Rs.)	31.12.07 (Rs.)	Assets	1.1.07 (Rs.)	31.12.07 (Rs.)
Equity Capital	100000	100000	Cash	10000	7200
General Reserve	100000	100000	Debtors	70000	76800
Profit and Loss A/c	96000	98000	Stock	50000	44000
Current Liabilities	72000	82000	Land	40000	60000
Loan from Associate Company	---	40000	Buildings	100000	110000
Loan from Bank	62000	50000	Machinery	160000	172000
	430000	470000		430000	470000

Solution:

CASH FLOW STATEMENT (for the year ended 31.12.2007)		
	Rs.	Rs.
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in the balance of P/L A/c	2000	
Adjustments for non-cash and non-operating items:		
Dividend paid	52000	
Provision for depreciation on machinery (72,000-54,000)	18000	
Operating profit before working capital changes	72000	
Adjustments for changes in current operating assets and liabilities:		
Increase in debtors	(6800)	
Decrease in stock	6000	
Increase in current liabilities	10000	
Cash generated from operations before tax	81200	
Less: Income tax paid	---	
Net Cash from operating activities		81200
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of land (60,000-40,000)	(20000)	

Purchase of buildings (1,10,000-1,00,000)	(10000)	
Purchase of machinery (1)	(30000)	(60000)
Net Cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan from associate company	40,000	
Loan repaid to bank	(12,000)	
Dividend paid	(52.000)	(24000)
Net Decrease in cash a cash equivalents		(2800)
Cash and cash equivalents at the beginning of the period		10000
Cash and cash equivalents at the end of the period		7200

Working Notes:

Machinery A/c (At written down values)

	Rs.		Rs.
To Balance b/d	160000	By Depreciation(72,000-54,000)	18000
To Cash-purchased (bal. fig.)	30000	By Balance c/d	172000
	190000		190000

Illustration:

The Balance Sheets of M/S A and B on 1.1.2017 and 31.12.2017 were as follows.

LIABILITIES	1.1.2017	31.12.2017	ASSETS	1.1.2017	31.12.2017
Creditors	1,20,000	1,32,000	Cash	30,000	21,000
Mrs A's Loan	75,000		Debtors	90,000	1,50,000
Loan from Bank	1,20,000	1,50,000	Stock	1,05,000	75,000
Capital	3,75,000	4,59,000	Machinery	2,40,000	1,65,000
			Land	1,20,000	1,50,000
			Building	1,05,000	1,80,000
	6,90,000	7,41,000		6,90,000	7,41,000

During the year a machine costing Rs. 30,000 (accumulated depreciation Rs. 9,1)00) was sold for Rs. 15,000. The provision for depreciation against machinery as on 1.1.2007 was Rs. 75,000 and on 31.12.2007 Rs. 1,20,000. Net profit for the year 2007 amounted to Rs. 1,35,000. Prepare Cash Flow Statement

Solution:

Cash Flow Statement (for the year ended 31.12.2007)		
	Rs.	Rs.
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year (Working Note 3)		135000
Adjustments for non-cash and non-operating items:	6000	
Loss on sale of machinery	54000	
Depreciation provided during the year	195000	

Operating profit before working capital changes		
Adjustments for changes in current operating assets and liabilities:		
Increase in debtors	(60000)	
Decrease in stock	30000	
Increase in creditors	12000	
Cash generated from operations	177000	
Less: Income tax paid	---	
Net Cash from operating activities		177000
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of machinery	15000	
Purchase of land	(30000)	
Purchase of building	(75000)	
Net cash used in investing activities		(90000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Mrs. A's Loan	(75000)	
Loan from bank	30000	
Drawings from capital (see capital account)	(51000)	
Net cash used in financing activities		(96000)
Net Decrease in cash and cash equivalents		(9000)
Cash and cash equivalents at the beginning of the period		30000
Cash and cash equivalents at the end of the period		21000

Workings:

**Provision for depreciation
A/c**

	Rs.		Rs.
To depreciation on machinery sold	9000	By balance b/d	75000
To balance b/d	120000	By profit and loss A/c (depreciation provided during the year)	54000
	129000		129000

Machinery A/c (At cost)

	Rs.		Rs.
To balance b/d (240000+75000)	315000	By provision for depreciation (Dep. On Machinery sold)	9000
		By cash (sale)	15000
		By loss on sale	6000
		By balance c/d (165000+12000)	285000
	315000		315000

Capital A/c

	Rs.		Rs.
To drawings (Bal. fig.)	51000	By balance b/d	375000
To balance c/d	459000	By net profit (given)	135000
	510000		510000

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ending 31st March, 1998

Dr.	Rs.	Cr.	Rs.
To Purchases	20,000	By Sales	30,000
To Wages	5,000		
To Gross Profit c/d	5,000		
30,000	30,000		
To Salaries	1,000	By Gross Profit/b/d	5,000
To Rent	1,000	By Profit on sale out building	
To Depreciation on Plant	1,000	Book Value	10,000
To Goodwill written	1,000		

off			
To Net Profit	5,500		
	10,000		10,000

Calculate the cash from operations.

Solution:

CASH FROM OPERATIONS

	Rs.	Rs.
Net Profit as per P & L Account		5,500
Add: Non-cash items (items which do not result in outflow of cash):		
Depreciation	1,000	
Loss on sale of furniture	500	

Goodwill written off	1,000	2,500
Less: Non-cash items (items which do not result In Inflow of cash):		8,000
Profit on sale of building (Rs. 15,000 will be taken as a separate source of cash)		5,000
Cash from operations		3,000

Example:

From the following balances, you are required to calculate cash from operations:

December 31

	1997 Rs.	1998 Rs.
Debtors	50,000	47,000
Bills Receivable	10,000	12,500

Creditors	20,000	25,000
Bills Payable	8,000	6,000
Outstanding Expenses	1,000	1,200
Prepaid Expenses	800	700
Accrued Income	600	750
Income received in Advance	300	250
Profit made during the year	-	1,30,000

Solutions:

CASH FROM OPERATIONS

	December 1997 Rs.	31st 1998 Rs.
Profit made during the year		1,30,000
Add: Decrease in Debtors	3,000	
Increase in Creditors	5,000	
Increase in Outstanding Expenses	200	
Decreases in prepaid expenses	100	8,300
		1,38,300

Less:Increase in Bills Receivable	2,500	
Decrease in Bills payable	2,000	
Increases in Accrued Income	150	
Decrease in Income received in Advance	50	4,700
Cash from Operations		1,33,600