

Management Accounting

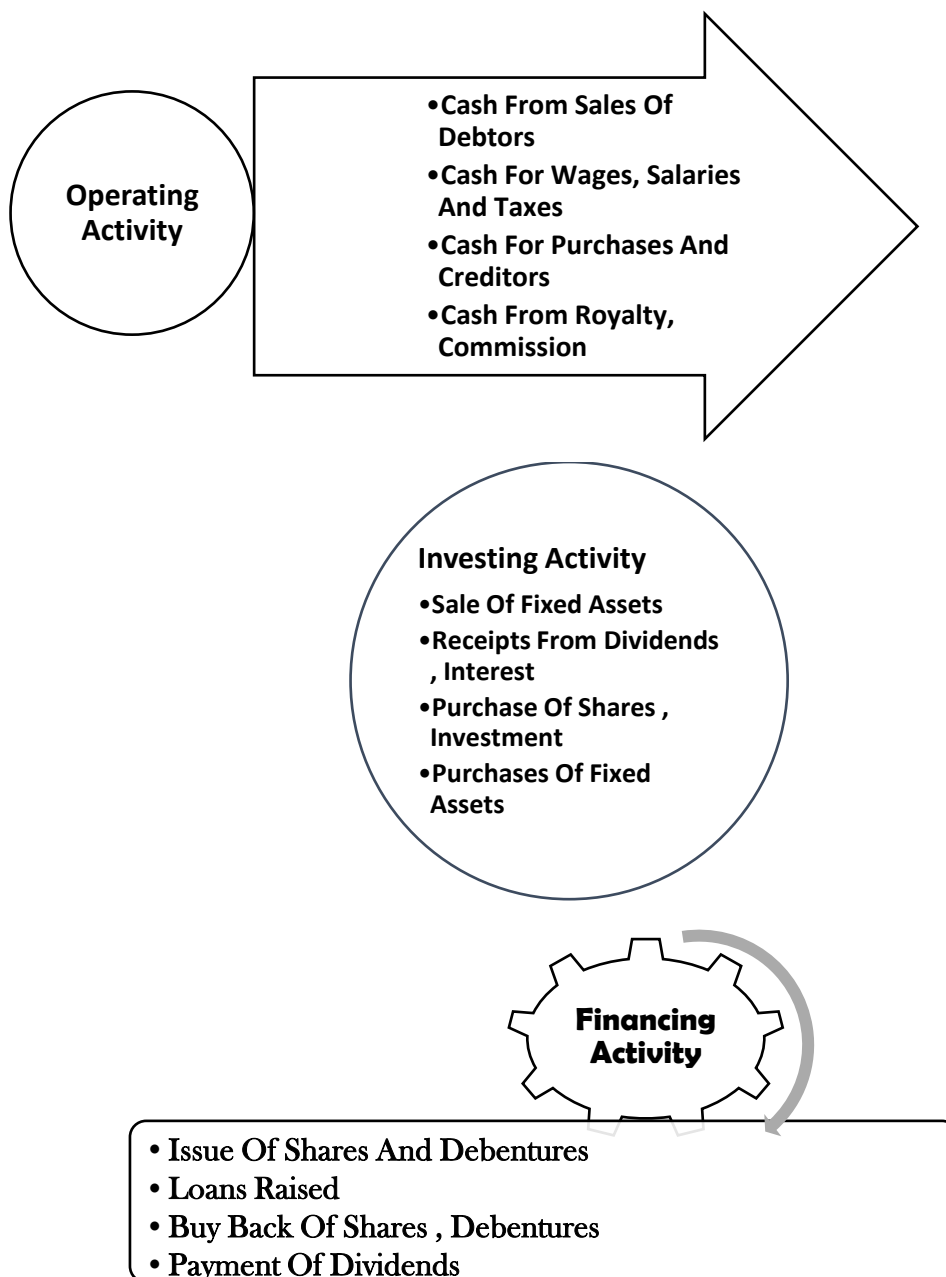
Chapter 4 Cash Flow Statement

Meaning:

Cash Flow Statement Provides Information About Major Sources Of Cash Inflows And Cash Outflows During The Year. A Cash Flow Statement Is A Statement Of Changes In Cash Position Between The Beginning Of The Year And Ending Of The Year

It Includes:

1. Cash From Operating Activity
2. Cash From Investing Activity
3. Cash From Financing Activity



OPERATING	INVESTMENT	FINANCING
Net profit during the year	Purchase of Fixed Asset	equity share Capital
Goodwill +	(-)	Debtors
General Reserve -	Sale of Fixed Asset	Long term loan
Dividend	(+)	Dividend paid (-)
Depreciation		Income tax (-)
Provision on tax		+ opening B/s of Cash
Profit on Sale		closing B/s of Cash
Loss on Sale		↳ ANSWER
Preliminary expenses		
Proposed dividend (2nd year)		

Difference Between Fund Flow Statement And Cash Flow Statement

Table Of Difference Between Funds Flow Statement And Cash Flow Statement

	Basis Of Difference	Funds Flow Statement	Cash Flow Statement
1.	Basis Of Analysis	Funds Flow Statement Is Based On Broader Concept I.E. Working Capital.	Cash Flow Statement Is Based On Narrow Concept I.E. Cash, Which Is Only One Of The Elements Of Working Capital.
2.	Source	Funds Flow Statement Tells About The Various Sources From Where The Funds Generated With Various Uses To Which They Are Put.	Cash Flow Statement Stars With The Opening Balance Of Cash And Reaches To The Closing Balance Of Cash By Proceeding Through Sources And Uses.

3.	Usage	Funds Flow Statement Is More Useful In Assessing The Long-Range Financial Strategy.	Cash Flow Statement Is Useful In Understanding The Short-Term Phenomena Affecting The Liquidity Of The Business.
4.	Schedule Of Changes In Working Capital	In Funds Flow Statement Changes In Current Assets And Current Liabilities Are Shown Through The Schedule Of Changes In Working Capital.	In Cash Flow Statement Changes In Current Assets And Current Liabilities Are Shown In The Cash Flow Statement Itself.
5.	End Result	Funds Flow Statement Shows The Causes Of Changes In Net Working Capital.	Cash Flow Statement Shows The Causes The Changes In Cash.
6.	Principal Of Accounting	Funds Flow Statement Is In Alignment With The Accrual Basis Of Accounting.	In Cash Flow Statement Data Obtained On Accrual Basis Are Converted Into Cash Basis.

Objectives and uses of cash flow statement

1. Useful in cash planning
2. Assess cash flow from operating activity
3. Payment of dividends
4. Gives reasons for surplus or shortage of cash

Limitations of cash flow statement

(a) Fails to Present Net Income:

Cash Flow Statement actually fails to present the net income of a firm for a period since it does not consider non-cash items which can easily be ascertained by an Income Statement. It can be used as a supplement to Income Statement.

(b) Fails to Assess the Liquidity and Solvency Position:

Practically, cash flow statement does not help to assess liquidity or solvency position of a firm. Proper liquidity position cannot be assessed from the cash flow statement which presents only the cash position at the end of the period. It only helps how much amount of obligation can be met, i.e. Cash Flow Statement does not represent the real liquidity position.

(c) Neither a Substitute of Funds Flow Statement nor Income Statement:

Cash Flow Statement is neither a substitute of Funds Flow Statement nor a substitute of Income Statement. The functions which are performed by a Funds Flow Statement or Income statement cannot be done by a Cash Flow Statement.

(d) Not to Assess Profitability:

Practically, cash flows from operation does not help to assess profitability of a firm since it neither considers the costs nor revenues.

(e) Does not Conform with the Companies Act:

The provisions which are made by the Companies Act is in conformity with Profit and Loss Account and Balance Sheet are not in conformity with Cash Flow Statement which is prepared as per AS 3.

(f) Does not Assess Future Cash Flows:

Since Cash Flow Statement is prepared on the basis of historical cost and, as such, it does not help to know the future/projected cash flows.

(g) Inter-Industry Comparison not Possible:

Since Cash Flow Statement does not measure the economic efficiency of a firm in comparison with other inter-industry comparison is not possible, e.g. a firm having less capital investment will have less cash flow than the firm which has more capital investment having a higher cash flow.

Questions:

1. Calculate cash from operation from the following information

Particulars	2013	2014
Bills Receivables	50,000	47,000
Sundry Drs	10,000	12,500
Bills Payable	20,000	25,000
Sundry Crs	8,000	6,000
O/S Expenses	1,000	1,200
Prepaid Expenses	800	700
Accrued Income	600	750
Income Received In Advance	800	250
Net Profits During The Year		70,000

2. Calculate cash from operations from the following information

Particulars	2014	2015
Income Received In Advance	600	500
Prepaid Expenses	1,400	1,600
Sundry Drs	95,000	80,000
B/R	20,000	25,000
Sundry Crs	40,000	45,000
B/P	15,000	13,000
O/S Expenses	2,000	2,500
Accrued Income	1,200	1,500
Profits During The Year		2,50,000

3. Calculate cash from operating activity

Particulars	2013	2014
Drs	12,000	15,000
Crs	10,000	15,000
B/R	10,000	8,500
B/P	8,000	6,000
O/S Expenses	5,000	4,000
Prepaid Expenses	200	300
Profits During The Year		50,000

4. Calculate cash from operating activity

Particulars	2013	2014
Stock	60,000	50,000
Sundry Drs	25,000	23,000
Sundry Crs	32,000	28,000
O/S Expenses	3,500	4,500
B/P	35,000	22,000
Accrued Income	8,000	9,000
Net Profits During The Year		10,000

5. Calculate cash from operating activity

Particulars	Amount	Particulars	Amount
To Salary	5,000	By Gross Profits	25,000
To Rent	1,000	By Profits On Sale Of Land	5,000
To Depreciation	2,000	By Income Tax Refund	3,000
To Loss On Sale Of Plant	1,000		
To Good Will Written Off	4,000		
To Proposed Dividend	5,000		
To Provision For Tax	5,000		
To Net Profits	10,000		
	33,000		33,000

6. Prepare cash flow statement from the following information

Liabilities	2013	2014	Assets	2013	2014
Share Capital	2,00,000	2,50,000	G/W	10,000	2,000
Debentures	1,00,000	80,000	Land And Building	2,00,000	2,80,000
G/R	50,000	70,000	Machinery	1,00,000	1,30,000
Crs	40,000	60,000	Drs	40,000	60,000
B/P	20,000	1,00,000	Stock	70,000	90,000

O/S Rent	25,000	20,000	Cash	15,000	18,000
Total	4,35,000	5,80,000	Total	4,35,000	5,80,000

7. Prepare cash flow statement from the following

Liabilities	2013	2014	Assets	2013	2014
Sundry Crs	30,000	40,000	Cash	50,000	60,000
Debentures	1,50,000	90,000	Sundry Drs	75,000	1,00,000
Provision For Depreciation	60,000	80,000	Stock	1,40,000	1,20,000
Equity Share Capital	2,00,000	2,40,000	Land And Building	1,00,000	80,000
Retained Earnings	1,25,000	1,60,000	Plant And Machinery	2,00,000	2,50,000
Total	5,65,000	6,10,000	Total	5,65,000	6,10,000

Adjustments:

1. Cash dividends of 25,000 was paid during the year

8. Prepare cash flow statement from the following information

liabilities	2013	2014	assets	2013	2014
Equity share capital	3,00,000	3,50,000	Land and building	2,30,000	3,90,000
Share premium	Nil	30,000	Plant and machinery	85,400	1,40,000
g/r	45,000	65,000	Furniture	5,500	6,500
p/l a/c	30,000	80,800	Stock	82,400	95,700
Debenture	Nil	70,000	Sundry debtors	75,000	85,500
S crs	85,000	90,700	Bank	34,200	44,300
Provision for tax	22,500	40,500			
Proposed dividend	30,000	35,000			
Total	5,12,500	7,62,000	Total	5,12,500	7,62,000

Adjustments:

1. Depreciation on land and building Rs 60,000
2. Depreciation on plant and machinery Rs 50,000
3. Depreciation on furniture Rs 1,200

9. Calculate cash flow statement from the following information

liabilities	2013	2014	assets	2013	2014
Equity share capital	3,00,000	4,00,000	g/w	1,15,000	90,000
Redeemable preference shares	1,50,000	1,00,000	Land and buildings	2,00,000	1,70,000
g/r	40,000	70,000	Plant	80,000	2,00,000
p/l	30,000	48,000	Debtors	1,60,000	2,00,000
Proposed dividend	42,000	50,000	Stock	77,000	1,09,000
Crs	55,000	83,000	b/r	20,000	30,000
b/p	20,000	16,000	Cash in hand	15,000	10,000
Provision for taxation	40,000	50,000	Cash at bank	10,000	8,000
total	6,77,000	8,17,000	Total	6,77,000	8,17,000

Adjustments:

1. Depreciation of 20,000 on land and building
2. Depreciation of 10,000 on plant
3. Interim dividend of 20,000 has been paid during the year
4. Income tax of 35,000 has been paid during the year

10. Prepare cash flow statement from the following information

Liabilities	2014	2015	Assets	2014	2015
Share Capital	6,84,000	9,00,000	G/W	2,30,000	1,80,000
Preference Share Capital	3,00,000	2,00,000	L/B	4,00,000	3,40,000
G/R	80,000	1,40,000	Plant	1,60,000	4,00,000
P/L	60,000	96,000	Stock	1,54,000	2,18,000
Sundry Crs	1,10,000	1,66,000	S.Drs	3,20,000	4,00,000
B/P	40,000	32,000	B/R	40,000	60,000
Provision For Tax	80,000	1,00,000	Cash	50,000	36,000
Total	13,54,000	16,34,000	Total	13,54,000	16,34,000

Adjustments:

1. Dividends paid worth Rs 40,000
2. Depreciation on land and building Rs 40,000

3. Depreciation on plant Rs 20,000
4. Provision for tax made during the year Rs 90,000

11. Calculate cash flow statement from the following:

Liabilities	2013	2014	Assets	2013	2014
Share Capital	1,70,000	1,80,000	Plant And Machinery	99,000	92,200
Share Premium	9,000	11,000	Buildings	1,38,000	1,61,000
Retained Earnings	23,820	30,820	Land	10,000	12,000
S Crs	6,900	6,000	Stock	10,220	9,620
Provision For Tax	1,000	1,400	S.Drs	8,600	7,600
O/S Salaries	2,000	1,400	Prepaid Expenses	720	800
Mortgage Loan	Nil	20,000	Cash	6,180	9,800
Debentures	60,000	42,400			
Total	2,72,720	2,93,020	Total	2,72,720	2,93,020

Adjustments:

1. Buildings acquired during the year 60,000
2. Dividends paid during the year 17,000
3. A sum of 11,000 was transferred to provision for taxation

12. Calculate cash flow statement from the following information:

liabilities	2013	2014	assets	2013	2014
Equity share capital	2,15,000	2,75,000	Goodwill	Nil	20,000
Reserves	40,000	40,000	Plant and machinery	1,12,950	1,16,200
p/l a/c	39,690	41,220	Land and buildings	1,48,500	1,44,250
Provision for tax	40,000	50,000	Current assets	1,98,530	1,70,730
Bank loan	59,510	Nil	Cash	7,500	7,700
Current liability	73,280	52,660			
Total	4,67,480	4,58,880	Total	4,67,480	4,58,880

Adjustments:

1. A dividend of Rs 26,000 was paid during the year
2. Profits before tax for the year was Rs 62,530
3. During the year , the company paid tax of Rs 25,000

4. During the year , the company purchased another company and paid 60,000 In share capital , It acquired stock Rs 21,640 and plant worth 18,360
5. It purchased machinery costing Rs 5,650 during the year

13. Calculate cash flow statement

Liabilities	2013	2014	Assets	2013	2014
Share Capital	2,00,000	2,50,000	Buildings	2,00,000	1,60,000
General Reserves	50,000	60,000	Machinery	1,50,000	1,69,000
P/L A/C	30,500	30,600	Stock	1,00,000	75,000
Long Term Loan	80,000	Nil	Debtors	50,000	54,200
Creditors	1,20,000	1,00,400	Cash And Bank	500	2,800
Provision For Taxation	20,000	25,000	Goodwill	Nil	5,000
Total	5,00,500	4,66,000	Total	5,00,500	4,66,000

Adjustments:

1. During the year ended , a dividend of Rs 23,000 was paid
2. Assets purchased for Rs 45,000 payable in share of XY co.Ltd the assets were:
3. Stock Rs 20,000 and machinery Rs 25,000
4. Further purchase of machinery for cash Rs 10,000
5. Machinery is depreciated by Rs 14,000
6. Income tax provided during the year Rs 30,000
7. There was a loss on sale of machinery Rs 1,000 which was written off to general reserve.