KMBN-103: Financial Accounting& Analysis (Unit-3)

Preparation of Final Accounts

Meaning

Final accounts are those accounts that are prepared by a joint stock company at the end of a fiscal year. The purpose of creating final accounts is to provide a clear picture of the financial position of the organisation to its management, owners, or any other users of such accounting information.

Final account preparation involves preparing a set of accounts and statements at the end of an accounting year. The final account consists of the following accounts:

1. Trading and Profit and Loss Account
2. Balance Sheet
3. Profit and Loss Appropriation account

Objectives of Final Account preparation

Final accounts are prepared with the following objectives:

1. To determine profit or loss incurred by a company in a given financial period
2. To determine the financial position of the company
3. To act as a source of information to convey the users of accounting information (owners, creditors, investors and other stakeholders) about the solvency of the company.

Trading account

Trading account is used to determine the gross profit or gross loss of a business which results from trading activities. Trading activities are mostly related to the buying and selling activities involved in a business. Trading account is useful for businesses that are dealing in the trading business. This account helps them to easily determine the overall gross profit or gross loss of the business. The amount thus determined is an indicator of the efficiency of the business in buying and selling.

The trading account considers only the direct expenses and direct revenues while calculating gross profit. This account is mainly prepared to understand the profit earned by the business on the purchase of goods.

Closing entries for Gross Loss or Gross Profit

The following entries are passed

In case of Gross Loss
Profit and Loss A/c Dr.
To Trading A/c
In case of Gross Profit
Trading A/c Dr.
To Profit and Loss A/c

Step: 1
Trading A/C
As on………………

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Opening Stock	Xxx	By Sales xxx	
To Purchases xxx		Less: Sales return xxx	Xxx
Less: Purchase return xxx	Xxx	Or Return inward	
Or Return outward		Or Return from customers	
Or Return to suppliers	Xxx	By Closing Stock	Xxx
To Packaging on purchases	Xxx		
To Carriage on purchase	Xxx	By Gross Loss c/d	Xxx
To Carriage/ carriage inward	Xxx		
To Freight/ freight inward	Xxx		
To Purchasing expenses	Xxx		
To Custom duty	Xxx		
To import duty	Xxx		
To Excise duty	Xxx		
To dock charges	Xxx		
To Octroi charges	Xxx		
To Coolie and cartages	Xxx		
To Wages	Xxx		
To Workmen/Foremen salary	Xxx		
To Heating and lightning	Xxx		
To Motive power/Power expenses	Xxx		
To coke and coal	Xxx		
To store consumed/store expenses	Xxx		
To Royalty on production	Xxx		
To Factory expenses	Xxx		
To Manufacturing expenses	Xxx		
To other direct expenses	Xxx		
To Gross Profit c/d	xxx		
Total	xxx	Total	xxx

Example :- Prepare a trading account for the year ending March 31, 2016, from the following particulars:

Particulars	**Amount**	**Particulars**	**Amount**
Stock (April 1, 2015)	**20,000**	**Octroi duty**	**75**
Cash purchases	**30,000**	**Drawings in goods by the proprietor**	**500**
Credit purchases	**20,000**	**Expenses of taking delivery**	**25**

Purchases returns	**1,000**	**Goods are given as charity**	**100**
Cash sales	**40,000**	**Carriage inward**	**1,450**
Credit sales	**30,000**	**Goods are given in samples free of charge**	**100**
Loss of goods by fire	**1,500**	**Goods sent on consignment at cost**	**1,500**
Wages	**400**	**Rent and taxes**	**500**
Returns inwards	**2,000**	**Discount**	**200**
Commission on purchase	**100**	**Commission**	**400**
Closing stock	**3,500**	**Travelling exp.**	**700**

Solution:

Trading Account

(For the year ending 31st March 2016)

Particulars		**Amount**	**Particulars**		**Amount**
To opening stock		**20,000**	**By Goods sent on consignment a/c**		**1,500**
To purchase			**By sales**		
Cash purchase 30,000	**30000**		**Cash sales**	**40000**	
Credit purchase 20,000	**20000**		**Credit sales**	**35000**	
Less: Return outward 1,000	**(1000)**		**Less: Return inward**	**(2000)**	**68000**
Drawings 500	**(500)**				
Goods as charity 100	**(100)**				
Goods as sample 100	**(100)**	**48300**			
To carriage inward		**1,450**	**By P&L A/c (Loss by fire)**		**1,500**

To wages		**400**	**By closing stock**		**3,500**
To commission on purchases		**100**			
To Octroi duty		**75**			
To Expenses of taking delivery		**25**			
To Gross profit transferred to P.&LA/c		**4,150**			
		74,500			**74,500**

Profit and Loss Account

Profit and loss account shows the net profit and net loss of the business for the accounting period. This account is prepared in order to determine the net profit or net loss that occurs during an accounting period for a business concern.

Profit and loss account get initiated by entering the gross loss on the debit side or gross profit on the credit side. This value is obtained from the balance which is carried down from the Trading account.

Net profit can be determined by deducting business expenses from the gross profit and adding other incomes obtained

Net profit = Gross profit – Expenses + Other income

Closing Entries for Net Loss or Net Profit:
i. In case of Net Loss
Capital A/c – Dr.
To Profit and Loss A/c

ii. In case of Net Profit
Profit and Loss A/c -Dr.
To Capital A/c

Profit and Loss Accunt of ....

Dr. For the year ending .... Cr.

Particulars	Amt Rs.	Particulars	Amt Rs.
To Gross loss b/d	****	By Gross profit b/d	****
To Sales commission	****	By Rent received	****
To Selling and distributing expenses	****	By Miscellaneous received	****
To Postage and telegram	****	By Interest received	****
To Insurance	****	By Discount received	****
To Electricity charges	****	By Dividend received	****
To Telephone charges	****	By Compensation received	****
To General expenses	****	By Commission received	****
To Legal charges	****	By Profit on sale of fixed assets	****
To Discount allowed	****	By Bad debt recovered	****
To Audit fees	****	By Apprentice premium	****
To Bank charges	****	By Net loss c/d	****
To Interest	****		
To Free sample distribution	****		
To Office and administrative expenses	****		
To Entertainment expenses	****		
To Donation and charities	****		
To Sales tax	****		
To Goods lost by fire/ theft	****		
To Loss on sale of fixed assets	****		
To Carriage outward	****		
To Printing and stationery	****		
To Rent, rates and taxes	****		
To Depreciation on fixed assets	****		
To Other expenses	****		
To Bad debts	****		
To Net profit c/d	****		
	*****		*****

Illustration of Profit and Loss Account: –

Prepare Profit and Loss account for the year ending March 31, 2018, in the books of Tutorstips Ltd. from the following balances as on March 31, 2018.

Gross Profit	**1,000,000**
Salaries	**144,000**
Commission received	**25,000**
Interest charges by bank	**5,000**
Freight outwards	**7,000**
Printing & Stationery	**5,000**
Interest on loan	**3,500**
Travelling Expenses	**15,000**
Advertisement Expenses	**7,200**
Rent Received	**10,000**
Legal Charges	**5,000**
Postage and telegram	**1,200**
Insurance	**10,000**
Loss on sale of Machinery	**700**
Gain on sale of Furniture	**500**
Depreciation on Fixed Assets	**10,000**

Also, show the closing entries.

Solution: – Journal book

Date	Particulars		L.F.	Debit	Credit
	P&L A/c	**Dr.**		**2,13,600**	
	To Salaries				**1,44,000**
	To Interest charges by bank				**5,000**
	To Freight outwards				**7,000**
	To Printing & Stationery				**5,000**
	To Interest on a loan				**3,500**
	To Travelling Expenses				**15,000**
	To Advertisement Expenses				**7,200**
	To Legal Charges				**5,000**
	To Postage and telegram				**1,200**
	To Insurance				**10,000**
	To loss on the sale of Machinery				**700**
	To Depreciation on Fixed Assets				**10,000**
	(Being all indirect expenses transferred to P&L Account)				
	Commission received	**Dr.**		**25,000**	
	Rent Received	**Dr.**		**10,000**	
	Gain on sale of Furniture	**Dr.**		**500**	
	To P&L A/c				**35,500**
	(Being indirect Income transferred to P&l Account)				
	P&L A/c	**Dr.**		**8,21,900**	
	To Capital Account				**8,21,900**
	(Being Net profit transferred to Capital account)				

Profit and Loss Account as on March 31, 2018

Particulars	Amounts	Particulars	Amounts
To Salaries	**1,44,000**	**By Trading A/c – (G.P.)**	**10,00,000**
To Interest charges by bank	**5,000**	**By Commission received**	**25,000**
To Freight outwards	**7,000**	**By Rent Received**	**10,000**
To Printing & Stationery	**5,000**	**By Gain on sale of Furniture**	**500**
To Interest on the loan	**3,500**		
To Travelling Expenses	**15,000**		
To Advertisement Expenses	**7,200**		
To Legal Charges	**5,000**		
To Postage and telegram	**1,200**		
To Insurance	**10,000**		
To loss on the sale of Machinery	**700**		
To Depreciation on Fixed Assets	**10,000**		
By Capital A/c (Balancing Figure represent Net Profit)	**8,21,900**		
	10,35,500		**10,35,500**

Balance Sheet

A balance sheet states a business's assets, liabilities, and shareholders equity at a specific point in time. They offer a snapshot of what your business owns and what it owes as well as the amount invested by its owners, reported on a single day. A balance sheet tells you a business's worth at a given time, so you can better understand its financial position.

A balance sheet is an important financial statement that gives a snapshot of the financial health of your business at a point in time. You can also look at your balance sheet in conjunction with your other financial statements. This way, you can better understand the relationships between different accounts. A balance sheet is important because it provides the following insights about your business.

Balance Sheet of .... As at.............

Liabilities	Rs.	Assets	Rs.
		Fixed Assets:	
Capital:		Good will	
Opening Balance xxxx		Land	
Add: Net Profit xxxx		Building	
(Less: Net Loss)		Plant & Machinery	
Less: Drawings xxxx		Furniture & Fixtures	
Long-term Liabilities:		Investment:	
Loan		Current Assets:	
Current liabilities:		Closing stock	
Income received-in-advance		Accrued income	
Sundry Creditors		Prepaid expenses	
Outstanding Expenses		Sundry Debtors	
Bills Payable		Bills Receivable	
Bank Overdraft		Cash at Bank	
		Cash in Hand	

Example:- **Prepare trading and profit and loss account of M/s Sports Equipments for the year ended March 31, 2017 and balance sheet as on that date**:

Account Title	Debit Amount Rs	Credit Amount Rs
Opening stock	50,000	
Purchases and sales	3,50,000	4,21,000
Sales returns	5,000	
Capital		3,00,000
Commission		4,000
Creditors		1,00,000
Bank overdraft		28,000
Cash in hand	32,000	
Furniture	1,28,000	
Debtors	1,40,000	
Plants	60,000	
Carriage on purchases	12,000	
Wages	8,000	
Rent	15,000	
Bad debts	7,000	
Drawings	24,000	
Stationery	6,000	
Travelling expenses	2,000	
Insurance	7,000	
Discount	5,000	
Office expenses	2,000	

Closing stock as on March 31, 2017 Rs 2,500

Solution:

Trading Account as on March 31, 2017

Dr. **Cr.**

Particulars	**Amount Rs**	**Particulars**		**Amount Rs**
Opening Stock	50,000	Sales	4,21,000	
Purchases	3,50,000	*Less*: Sales Return	5,000	4,16,000
Carriage on Purchases	12,000	Closing Stock		2,500
Wages	8,000	Profit and Loss (Gross Loss)		1,500
	4,20,000			4,20,000

Profit and Loss Account as on March 31, 2017

Dr. **Cr.**

Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
Trading (Gross Loss)	1,500	Commission	4,000
Rent	15,000	Net Loss	41,500
Bad Debts	7,000		
Stationery	6,000		
Travelling Expenses	2,000		
Insurance	7,000		
Discount	5,000		
Office Expenses	2,000		
	45,500		45,500

Balance Sheet as on March 31, 2017

Liabilities		**Amount Rs**	**Assets**	**Amount Rs**
Capital	3,00,000		Plants	60,000
Less: Net Loss	(41,500)		Furniture	1,28,000
Less: Drawings	(24,000)	2,34,500	Debtors	1,40,000
			Closing Stock	2,500
Creditors		1,00,000	Cash in Hand	32,000
Bank Overdraft		28,000		
		3,62,500		3,62,500

Cash Flow Statement

A financial statement that represents the inflow and outflow of cash and cash equivalents of a company is called a cash flow statement. It shows how well a company can manage its cash position and generates enough cash to pay the obligations in the form of debt and also run the operational expenses.

Cash equivalents are investments that are highly liquid in nature and do not change value easily. Cash equivalents are essential for managing short term cash requirements or any such investments. For example treasury bills.

Cash Flows: It is the inflow and outflow of cash and cash equivalents. Cash inflows boosts cash balance and cash outflow has a negative impact on cash balance

Three types of activities are defined:

1. Operating Activities

2. Financing Activities

3. Investing Activities

Uses of cash flow statement

Following are uses of cash flow statement:

1. Useful for evaluating cash position of a firm

2. Helpful in finding deficiencies and variations in firms performance which helps in effective decision making

3. It helps in assessment of liquidity of a company

4. It analyses cash receipts and payments from the various activities of a company and helps in short term planning

5. It helps in segregating cash flows obtained from the various activities of the business

6. It helps in providing decision about distribution of profit.

7. It is useful for short term financial analysis

Objectives:

1. To determine inflow and outflow of cash and the cash equivalents obtained from the different kind of activities.

2. To seek out various reasons responsible for change in cash balances during the accounting period

3. It helps in depicting the position of the company in terms of liquidity and solvency

4. It also helps in determining the requirement and the corresponding availability of cash for business in future.

Prepare a format of cash flow from operating activities under indirect method.

The format is as follows:

Indirect Method		
Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items		***
Add: Non-Cash Expenses and Non-Operating Expenses		
Depreciation	**	
Goodwill	**	
Interest paid	**	
Loss on sale of fixed assets	**	
Foreign exchange	**	**
Less: Non-Operating Incomes.		
Dividend received	**	
Profit on sale of fixed assets	**	
Interest received	**	**
Operating profit before working capital changes		***
Add: Decrease in Current Assets	***	
Increase in Current Liabilities	***	***
Less: Increase in Current Assets	***	
Decrease in Current Liabilities	***	***
Cash generated from Operating Activities		***
Income tax paid		***
Cash Flow before Extraordinary Items		***
Add/Less: Extra ordinary Items		***
Net Cash Flow from Operating Activities		***

Procedure to prepare Cash Flow Statement.

Following steps are followed:

1. Determine cash flows obtained from operating activities

2. Determine cash flows obtained from financing activities

3. Determine cash flow obtained from investing activities

4. Determine net increase or decrease which is obtained by adding amounts from all the cash flow activities.

5. Add the opening balance of cash and the cash equivalents and deduct the same from the amount determined in the previous step.

There are two methods which are used for preparation of cash flow statement

1. Direct Method

2. Indirect Method.

Direct Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
A.	**Cash Flow from Operating Activities**		
	Cash Sales	**	
	Cash receipt from Debtors	**	
	Less: Cash Purchases	**	
	Cash paid to creditors and other expenses	**	
	Cash Generated from Operating Activities	**	
	Less: Income Tax Paid	**	
	Cash flow before Extraordinary Items	**	
	Add/Less: Extraordinary Items	**	
	Net Cash Flow from (used in) Operating Activities	**	**
B.	**Cash Flow from Investing Activities**	**	
	Sale of Fixed Assets	**	
	Sale of long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	Less: Purchase of Fixed Assets	**	
	Less: Purchase of long-term Investment	**	
	Net Cash Flow from Investing Activities	**	**
C.	**Cash Flow from Financing Activities**		
	Proceeds from Issue of Shares	**	
	Proceeds from Issue of Debentures and Other Long-term Borrowings	**	
	Less: Repayment of Debentures and Other Long-term Borrowings	**	
	Less: Redemption of Preference Shares	**	
	Less: Interest Paid	**	
	Less: Dividend Paid	**	
	Net Cash flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C)		**
	Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
	Cash and Cash Equivalent at the end		**

Indirect Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
A.	**Cash Flow from Operating Activities:**		
	Net Profit before tax and extraordinary items		***
	Add: Non-Cash Expenses and non operating expenses.		
	Depreciation	**	
	Goodwill	**	
	Interest paid	**	
	Loss on sale of fixed assets	**	**
	Less: Non-Operating Incomes.		
	Dividend received	**	
	Profit on sale of fixed assets	**	
	Interest received	**	**
	Operating Profit before Working Capital Changes		***
	Add: Decrease in Current Assets	***	
	Increase in Current Liabilities	**	***
	Less: Increase in Current Assets	***	
	Decrease in Current Liabilities	***	***
	Cash generated from Operating Activities		***
	Less: Income tax paid		***
	Cash flow before Extra ordinary items		***
	Add/Less: Extra ordinary items		***
	Net Cash Flow from Operating Activities		***
B.	**Cash Flow from Investing Activities**	**	
	Sale of Fixed Assets	**	
	Sale of Long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	Less: Purchase of Fixed Assets	**	
	Less: Purchase of long term Investment	**	
	Net Cash Flow from Investing Activities	**	**
C.	**Cash Flow from Financing Activities**		
	Proceeds from Issue of shares	**	
	Proceeds from Issue of Debentures and other Long-term Borrowings	**	
	Less: Repayment of Debentures and other Long-term Borrowings	**	
	Less: Redemption of preference Share	**	
	Less: Interest paid	**	
	Less: Dividend paid	**	
	Net Cash Flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C)		**
	Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
	Cash and Cash Equivalents at the end		**

“Indirect” method of ascertaining Cash Flow from Operating Activities.

In indirect method cash flow statement begins with net income or loss, and thereafter the additions or deductions from that amount for non-cash expense and revenue items, which results in cash flow from operating activities. Following are some items:

1. Items that are non-cash in nature like goodwill, depreciation are added towards net profit

2. Expenses that are non-operating in nature like transfer to reserve and loss on sale of fixed assets which are added back to show Net Profit earned.

3. Provision such as discount for debtors, doubtful debts, proposed dividends etc. should be added to Net Profit

4. Any decrease in current assets and an increase in current liabilities is added to operating profit**.**

Following items get deducted from net profit of P & L account

1. Incomes that are non-operating in nature like sale of fixed assets

2. Non-trading incomes like dividend received, tax refund, interest received

3. Increase in current assets and decrease in current liabilities

Indirect Method		
Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items		***
Add: Non-Cash Expenses and Non-Operating Expenses		
Depreciation	**	
Goodwill	**	
Interest paid	**	
Loss on sale of fixed assets	**	
Foreign exchange	**	**
Less: Non-Operating Incomes.		
Dividend received	**	
Profit on sale of fixed assets	**	
Interest received	**	**
Operating profit before working capital changes		***
Add: Decrease in Current Assets	***	
Increase in Current Liabilities	***	***
Less: Increase in Current Assets	***	
Decrease in Current Liabilities	***	***
Cash generated from Operating Activities		***
Income tax paid		***
Cash Flow before Extraordinary Items		***
Add/Less: Extra ordinary Items		***
Net Cash Flow from Operating Activities		***

Cash Inflow and outflows from investing activities.

Investing activities consist of sales and purchase of fixed assets that are long term in nature, like building, land, furniture and plant and machinery etc. It also includes sale and purchase of items that are not cash equivalents. If any income is received from these assets it is regarded as a part of investing activities. The major cash inflows and outflows that are involved in investing activities are:

1. Cash receipts that are obtained when fixed assets are sold off and it includes intangible assets.
2. Acquiring fixed assets which also includes intangibles like goodwill using cash payments, the payments is for the research and development and assets that are self-constructed.
3. Acquiring shares, debt instruments or warrants using cash payments
4. Disposal of shares and warrants that yield cash receipts.
5. Loans and cash advances that are made to third parties (does not includes loans and advances made by financial enterprises.
6. Cash receipts obtained from any insurance company for a property that is involved in accident
7. Cash receipts that are obtained for repayment of loans and cash advances made to third parties.
8. Any type of income that is obtained from fixed assets like interest, dividend and rent (not in case of financial enterprises)

Indirect Method
Cash Flow Statement

Particulars	Amount ₹	Amount ₹
Net Cash Flow from Operating Activities		***
Cash Flow from Investing Activities	**	
Sale of Fixed Assets	**	
Sale of Long-term Investments	**	
Interest Received	**	
Dividend Received	**	
Rent Received	**	
Less: Purchase of Fixed Assets	**	
Less: Purchase of long term Investment	**	
Net Cash Flow from Investing Activities	**	**

Direct Method

Cash Flow Statement

	Particulars	Amount ₹	Amount ₹
	Net Cash Flow from (used in) Operating Activities	**	**
B.	**Cash Flow from Investing Activities**	**	
	Sale of Fixed Assets	**	
	Sale of long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	Less: Purchase of Fixed Assets	**	
	Less: Purchase of long-term Investments	**	
	Net Cash Flow from Investing Activities	**	**

Cash Inflows and outflows from financing activities.

In a firm, the financing activities are associated with capital or long term funds of the firm, the financing activities bring about change in capital and borrowed funds.

The following cash inflows and outflows as per AS3 can be mentioned here as:
1. Cash received from the issuing of shares and similar instruments causes cash inflow
2. Cash received from issuing of debentures, obtaining loans, bonds and similar instruments brings cash inflow.
3. Repayments of debentures, loans and bonds in form of cash is considered cash outflow
4. Buying back shares and debentures which were issued is also cash outflow
5. Interest payment for debentures, advances and loans.
6. Dividend payment to equity and preference shareholders.

Direct Method

Cash Flow Statement

	Particulars	Amount ₹	Amount ₹
	Net Cash Flow from Investing Activities	**	**
	Cash Flow from Financing Activities		
	Proceeds from Issue of Shares	**	
	Proceeds from Issue of Debentures and Other Long-term Borrowings	**	
	Less: Repayment of Debentures and Other Long-term Borrowings	**	
	Less: Redemption of Preference Shares	**	
	Less: Interest Paid	**	
	Less: Dividend Paid	**	
	Net Cash flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C)		**
	Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
	Cash and Cash Equivalent at the end		**

Indirect Method

Cash Flow Statement

Particulars	Amount ₹	Amount ₹
Net Cash Flow from Investing Activities	**	**
Cash Flow from Financing Activities		
Proceeds from Issue of shares	**	
Proceeds from Issue of Debentures and other Long-term Borrowings	**	
Less: Repayment of Debentures and other Long-term Borrowings	**	
Less: Redemption of preference Share	**	
Less: Interest paid	**	
Less: Dividend paid	**	
Net Cash Flow from Financing Activities	**	**
Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C)		**
Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
Cash and Cash Equivalents at the end		**

Examples:-

1. Anand Ltd., arrived at a net income of ₹ 5, 00,000 for the year ended March 31, 2017. Depreciation for the year was ₹ 2, 00,000. There was a profit of ₹ 50,000 on assets sold which was transferred to Statement of profit and Loss account. Trade Receivables increased during the year ₹ 40,000 and Trade Payables also increased by ₹ 60,000. Compute the cash flow operating activities by the indirect approach.

The solution for this question is as follows:

Cash Flow from Operating Activities as on March 31, 2017		
Particulars	**Amount (₹)**	**Amount (₹)**
Net Profit during the year		5,00,000
Items to be adjusted:		
Add: Depreciation	2,00,000	
Less: Gain on sale of assets	(50,000)	1,50,000
Operating Profit before Working Capital changes		6,50,000
Add: Increase in Trade Payables	60,000	
Less: Increase in Trade Receivables	(40,000)	20,000
Net Cash from Operations		**6,70,000**

2. From the information given below you are required to calculate the cash paid for the inventory:

Particulars	**(₹)**
Inventory in the beginning	40,000
Credit Purchases	1,60,000
Inventory in the end	38,000
Trade payables in the beginning	14,000
Trade payables in the end	14,500

The solution for this question is as follows:

Trade Payables Account							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount ₹**	**Date**	**Particulars**	**J.F.**	**Amount ₹**
	Cash (Balancing fig.)		1,59,500		Balance b/d		14,000
	Balance c/d		14,500		Purchases		1,60,000
			1,74,000				1,74,000

Therefore the cash paid for Inventory amounts to ₹ 1, 59,500

3. For each of the following transactions, calculate the resulting cash flow and state the nature of cash flow, viz., operating, investing and financing.

(a) Acquired machinery for ₹ 2, 50,000 paying 20% by cheque and executing a bond for the balance payable.

(b) Paid ₹ 2, 50,000 to acquire shares in Informa Tech. and received a dividend of ₹ 50,000 after acquisition.

(c) Sold machinery of original cost ₹ 2, 00,000 with an accumulated depreciation of ₹ 1, 60,000 for ₹

60,000.

The solution for this question is as follows:

(a)

$$\text{Amount paid for Machinery} = 2,50,000 \times \frac{20}{100} = 50,000$$

Part payment ₹ 50,000 for acquiring machinery ₹ 2, 50,000 is related with Investing Activities

(b)

	₹
Amount paid for acquiring shares	(2,50,000)
Dividend received	50,000
Net Cash used in Investing Activities	(2,00,000)

Amount paid to acquire assets and dividend received is a part of Investing Activities.

(c) Inflow of cash of ₹ 60,000 on sale of machinery is a part Investing Activities.

4. The following is the Profit and Loss Account of Yamuna Limited:

Statement of Profit and Loss of Yamuna Ltd., for the Year ended March 31, 2017			
Particulars		**Note No.**	**Amount (₹)**
i)	Revenue from Operations		10,00,000
ii)	Expenses		
	Cost of Materials Consumed	1	50,000
	Purchase of Stock-in-trade		5,00,000
	Other Expenses	2	3,00,000
	Total Expenses		**8,50,000**
iii)	Profit before Tax (i – ii)		1,50,000

Additional information:

(i) Trade receivables decrease by ₹ 30,000 during the year.

(ii) Prepaid expenses increase by ₹ 5,000 during the year.

(iii) Trade payables increase by ₹ 15,000 during the year.

(iv) Outstanding expenses payable increased by ₹ 3,000 during the year.

(v) Other expenses included depreciation of ₹ 25,000.

Compute net cash from operations for the year ended March 31, 2017 by the indirect method.

The solution for this question is as follows:

Cash Flow from Operating Activities of Yamuna Limited as on March 31, 2017

Particulars			**Amount ₹**	**Amount ₹**
Net Profit earned during the year				1,50,000
Items to be added:				
		Depreciation		25,000
Operating Profit before Working Capital changes				1,75,000
	Add:	Increase in Current Liabilities		
		Outstanding Expenses	3,000	
	Add:	Decrease in Current Assets		
		Trade Receivables	30,000	
		Stock	50,000	83,000
	Less:	Decrease in Current Liabilities		
		Trade Creditors	(15,000)	
	Less:	Increase in Current Assets		
		Prepaid Expenses	(5,000)	(20,000)
Net Cash from Operations				2,38,000

5. From the following information, prepare cash flow statement:

Particulars	**Note No.**	**31st March 2015 (₹)**	**31st March 2014 (₹)**
I) Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		7,00,000	5,00,000
b) Reserves and surplus		4,70,000	2,50,000
2. Non-current Liabilities			
(8% Debentures)		4,00,000	6,00,000
3. Current Liabilities			
a) Trade payables		9,00,000	6,00,000
Total		**24,70,000**	**19,50,000**
II) Assets			
1. Non-current assets			
a) Fixed assets			
i) Tangible		7,00,000	5,00,000
ii) Intangible-Goodwill		1,70,000	2,50,000

2. Current assets			
a) Inventories		6,00,000	5,00,000
b) Trade Receivables		6,00,000	4,00,000
c) Cash and cash equivalents		4,00,000	3,00,000
Total		**24,70,000**	**19,50,000**

Additional Information:

Depreciation Charge on Plant amount to ₹. 80,000.

Cash Flow Statement

for the year ending March 31, 2015

	Particulars	**Details (₹)**	**Amount (₹)**
A.	**Cash from Operating Activities**		
	Net Profit		2,20,000
	Items to be Added:		
	Interest on Debentures	48,000	
	Depreciation on Fixed Assets	80,000	
	Goodwill Written-off	80,000	2,08,000
	Operating Profit before Working Capital Adjustments		4,28,000

	Add: Increase in Current Liabilities		
	Creditors	3,00,000	
	Less: Increase in Current Assets		
	Inventories	(1,00,000)	
	Trade Receivables	(2,00,000)	–
	Cash Generated from Operations		4,28,000
	Less: Tax Paid		–
	Net Cash From Operating Activities		4,28,000
B.	**Cash From Investing Activities**		
	Purchase of Fixed Assets (**WN**)	(2,80,000)	
	Net Cash From Investing Activities		(2,80,000)
C.	**Cash From Financing Activities**		
	Issue of Share Capital	2,00,000	
	Redemption of Debentures	(2,00,000)	
	Interest Paid on Debentures	(48,000)	(48,000)
	Net Cash From Financing Activities (C)		(48,000)

	Net Increase in Cash (A + B + C)		1,00,000
	Add: Opening Cash and Cash Equivalents		3,00,000
	Closing Cash and Cash Equivalents		4,00,000

Working Note:

Fixed Assets Account					
Dr.					**Cr.**
Particulars	**J.F.**	**Amount (₹)**	**Particulars**	**J.F.**	**Amount (₹)**
Balance b/d		5,00,000	Depreciation		80,000
Purchases (Balancing Figure)		2,80,000	Balance c/d		7,00,000
		7,80,000			**7,80,000**