Cash Flow Statement

Standard difficulty · 20 questions · 40 marks · Time: 44 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. The cash flow statement is prepared under:
(a) AS 10 **(b)** AS 26 **(c)** AS 1 **(d)** AS 3 (Revised)

2. For a manufacturing company, "raising a long-term bank loan" is a cash flow from:
(a) operating activity **(b)** investing activity
(c) financing activity **(d)** not a cash flow (a cash equivalent)

3. Which of these is NOT a cash equivalent?
(a) a bank deposit maturing within three months
(b) commercial paper maturing within three months
(c) treasury bills maturing within three months
(d) equity shares of another company

4. A company's net profit before tax is ₹3,97,000. Depreciation is ₹50,000, interest on debentures (a finance cost) is ₹8,000 and there is a profit on sale of machinery ₹6,000. What is the operating profit before working capital changes?
(a) ₹4,49,000 **(b)** ₹4,41,000 **(c)** ₹4,47,000 **(d)** ₹4,61,000

5. In finding cash from operating activities: increase in trade receivables ₹39,000, increase in inventories ₹37,000, increase in trade payables ₹33,000. What is the net adjustment to the operating profit?
(a) deduct ₹1,09,000 **(b)** add ₹1,09,000
(c) add ₹43,000 **(d)** deduct ₹43,000

6. Machinery (net) was ₹4,50,000 at the start of the year and ₹5,39,000 at the end. Depreciation for the year was ₹78,000, and machinery of book value ₹43,000 was sold. How much machinery was bought?
(a) ₹89,000 **(b)** ₹2,10,000 **(c)** ₹1,67,000 **(d)** ₹2,88,000

7. During the year a company issued shares for ₹5,00,000, raised a long-term loan of ₹77,000, repaid an older loan of ₹43,000, paid dividend of ₹16,000 and interest on debentures of ₹38,000. What is the net cash from financing activities?
(a) ₹5,56,000 **(b)** ₹5,77,000 **(c)** ₹5,34,000 **(d)** ₹4,80,000

8. Cash from operating activities is ₹2,80,000, from investing activities −₹56,000 and from financing activities ₹34,000. Opening cash and cash equivalents were ₹25,000. What are the closing cash and cash equivalents?
(a) ₹2,83,000 **(b)** ₹3,95,000 **(c)** ₹2,58,000 **(d)** ₹2,15,000

Section B — Short answer — 8 × 2 = 16 marks

9. What is a cash flow statement?

10. Explain each term: (a) indirect method (b) cash flow

11. Find the cash from operating activities: net profit before tax ₹2,55,000; depreciation ₹49,000; interest on debentures ₹19,000; loss on sale of machinery ₹9,000; decrease in trade receivables ₹14,000; decrease in inventories ₹20,000; increase in trade payables ₹19,000; income tax paid ₹5,000.

12. Machinery with a book value of ₹51,000 was sold at a loss of ₹4,000. Find the cash received from the sale, and say under which activity it is shown.

13. The surplus (balance in the Statement of Profit and Loss) rose from ₹56,000 to ₹1,17,000. During the year ₹21,000 was transferred to general reserve and a provision for tax of ₹72,000 was made. Find the net profit before tax.

14. Provision for tax was ₹69,000 at the start of the year and ₹68,000 at the end. A provision of ₹85,000 was made during the year. How much tax was paid?

15. A company's opening cash and cash equivalents were ₹65,000, and the net decrease in cash and cash equivalents for the year was ₹5,000. Find the closing cash and cash equivalents.

16. For a manufacturing company, is each an operating, investing or financing activity? (a) dividend paid to shareholders (b) royalty received

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the benefits of a cash flow statement.

18. Prepare the cash flow from operating activities (indirect method): net profit before tax ₹2,12,000; depreciation ₹68,000; interest on debentures ₹27,000; profit on sale of machinery ₹9,000; increase in trade receivables ₹29,000; decrease in inventories ₹32,000; increase in trade payables ₹6,000; income tax paid ₹46,000.

19. Machinery (net) was ₹3,70,000 at the start and ₹5,32,000 at the end of the year, after depreciation of ₹77,000. Machinery of book value ₹41,000 was sold at a profit of ₹3,500. Long-term investments of ₹28,000 were bought and interest of ₹8,000 was received on investments. Find the cash flow from investing activities.

20. A company's cash from operating activities is ₹38,000. It bought machinery for ₹2,20,000 and sold old machinery for ₹22,000; issued shares for ₹2,00,000, repaid a loan of ₹29,000, paid dividend of ₹10,000 and interest on debentures of ₹2,000. Opening cash and cash equivalents were ₹50,000. Find (a) the cash flow from investing activities (b) from financing activities (c) the net change in cash and cash equivalents (d) the closing cash and cash equivalents.

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Answer key

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Q	Answer	Working
1	**(d) AS 3 (Revised)**	—
2	**(c) financing activity**	—
3	**(d) equity shares of another company**	—
4	**(a) ₹4,49,000**	₹3,97,000 + ₹50,000 + ₹8,000 − ₹6,000
5	**(d) deduct ₹43,000**	increase in trade receivables: deduct ₹39,000; increase in inventories: deduct ₹37,000; increase in trade payables: add ₹33,000
6	**(b) ₹2,10,000**	₹5,39,000 + ₹78,000 + ₹43,000 − ₹4,50,000
7	**(d) ₹4,80,000**	₹5,00,000 + ₹77,000 − ₹43,000 − ₹16,000 − ₹38,000
8	**(a) ₹2,83,000**	₹25,000 + ₹2,80,000 − ₹56,000 + ₹34,000
9	**A statement showing the inflows and outflows of cash and cash equivalents of a period, classified into operating, investing and financing activities.**	—
10	**(a) starting from net profit and adjusting for non-cash items and working capital changes (b) an inflow or outflow of cash and cash equivalents**	—
11	**₹3,80,000**	operating profit before working capital changes ₹3,32,000; decrease in trade receivables add ₹14,000, decrease in inventories add ₹20,000, increase in trade payables add ₹19,000; less tax ₹5,000
12	**₹47,000; investing activity**	₹51,000 − ₹4,000
13	**₹1,54,000**	₹1,17,000 − ₹56,000 + ₹21,000 + ₹72,000
14	**₹86,000**	₹69,000 + ₹85,000 − ₹68,000
15	**₹60,000**	₹65,000 − ₹5,000
16	**(a) financing activity (b) operating activity**	—
17	**It shows how cash was generated and used, helps judge liquidity and the ability to pay debts and dividends, helps cash planning, and allows comparison between firms.**	—
18	**Net profit before tax ₹2,12,000 Add: depreciation ₹68,000, interest on debentures ₹27,000; less profit on sale ₹9,000 Operating profit before working capital changes ₹2,98,000 increase in trade receivables: deduct**	interest is a financing item and the profit or loss on sale an investing one, so both are taken out of operating profit

Q	Answer	Working
	₹29,000; decrease in inventories: add ₹32,000; increase in trade payables: add ₹6,000 **Cash generated from operations ₹3,07,000; less income tax paid ₹46,000** **Cash from operating activities ₹2,61,000**	
19	**Sale of machinery ₹44,500; purchase of machinery (₹2,80,000); purchase of investments (₹28,000); interest received ₹8,000; net cash used in investing activities ₹2,55,500**	purchase = ₹5,32,000 + ₹77,000 + ₹41,000 − ₹3,70,000; sale = ₹41,000 + ₹3,500
20	**(a) −₹1,98,000; (b) ₹1,59,000; (c) −₹1,000; (d) ₹49,000**	(a) ₹22,000 − ₹2,20,000 (b) ₹2,00,000 − ₹29,000 − ₹10,000 − ₹2,000 (c) ₹38,000 + (a) + (b)