

CHAPTER

5

Cash Flow Statement

MEANING OF KEY TERMS USED IN THE CHAPTER

- 1. Cash Flow Statement** It is the statement that shows flow (inflow and outflow) of Cash and Cash Equivalents during the period under report.
- 2. Cash Flows** These are the inflows (receipts) and outflows (payments) of Cash and Cash Equivalents.
- 3. Cash** It comprises of Cash on Hand and demand deposits with banks.
- 4. Cash Equivalents** These are short-term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value. An investment normally qualifies as cash equivalent only when it has short maturity period of, say, three months or less from the date of acquisition, *i.e.*, purchase.
- 5. Operating Activities** These are the principal revenue producing activities of the enterprise and other activities that are not Investing and Financing Activities.
- 6. Investing Activities** These are activities of acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- 7. Financing Activities** These are the activities that result in change in the size and composition of the owner's capital (including Preference Share Capital in the case of a company) and borrowings of the enterprise.
- 8. Extraordinary Activities** These are incomes or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

CHAPTER SUMMARY

- **Cash Flow Statement** is a statement that shows flow of Cash and Cash Equivalents, both inflow and outflow during the period under report. The statement shows net increase or decrease of Cash and Cash Equivalents under each activity separately (operating/investing/financing) and collectively.
- **Preparation of Cash Flow Statement:** Cash Flow Statement is prepared following the steps as follows:
 - Step 1:** Compute Cash Flow from Operating Activities.
 - Step 2:** Compute Cash Flow from Investing Activities.
 - Step 3:** Compute Cash Flow from Financing Activities.
 - Step 4:** Cash flows under each activity, *i.e.*, Operating Activity, Investing Activity and Financing Activity as computed under Steps 1, 2 and 3 are added in Cash Flow Statement and the resultant amount is Net Increase or Decrease in Cash and Cash Equivalents.

Step 5: Cash and Cash Equivalents balance in the beginning of the period is added to the cash flows as arrived under Step 4. The amount so determined should be equal to Cash and Cash Equivalents balance at the end of the year.

Proposed Dividend

Proposed Dividend, both on Equity Shares and Preference Shares are paid after being declared (approved) by the shareholders in the Annual General Meeting. Annual General Meeting is held after the end of the financial year, i.e., in the next financial year. AS-4 (Revised), Contingencies and Events Occurring After the Balance Sheet Date prescribes that Proposed Dividend is not to be provided in the books of account but is to be disclosed (shown) in the Notes to Accounts as Contingent Liability being payable upon being declared (approved) by the shareholders. Dividend is an appropriation of Profit and is deducted from Surplus, i.e., Balance in Statement of Profit & Loss in the Note to Accounts on Reserves and Surplus in the year in which dividend is paid.

FORMAT OF CASH FLOW STATEMENT (INDIRECT METHOD) for the year ended ...
[As per Accounting Standard-3 (Revised)]

Particulars	₹	Explanation
I. Cash Flow from Operating Activities		
(A) Net Profit before Tax and Extraordinary Items (as per Working Note) Adjustment for Non-cash and Non-operating Items	... }	It shows the cash (including Bank) an enterprise generates from its principle (core) business operations. And also from transactions (inflow and outflow) that are not Investing and Financing Activities.
(B) Add: Items Added		
Non-Cash Expenses		Non-cash Expenses are added because net profit has reduced but outflow of Cash/Bank has not taken place.
• Depreciation	... }	
• Goodwill, Patents and Trademarks Amortised	... }	
Non-Operating Expenses		Non-operating Expenses are added because net profit has reduced and outflow of Cash/Bank has taken place but the expense is related either to Investing or Financing Activities.
• Interest on Bank Overdraft/Cash Credit	... }	
• Interest on Borrowings (Short-term and Long-term) and Debentures	... }	
• Underwriting Commission/Share Issue Expenses/Discount on Issue of Debentures Written off	... }	
• Loss on Sale of Fixed Assets	... }	
• Premium on Redemption of Preference Shares/Debentures Written off	... }	
• Increase in Provision for Doubtful Debts	... }	
(C) Less: Items Deducted		
Non-Cash Incomes		Non-cash Incomes are deducted because net profit has increased but inflow of Cash/Bank has not taken place.
• Liabilities Written Back Excess Provision Written Back	... }	
• Excess Provision Written Back	... }	
Non-Operating Incomes		Non-operating Incomes are deducted because net profit has increased and inflow of Cash/Bank has taken place but the income is either from Investing or Financing Activities.
• Interest Income	... }	
• Dividend Income	... }	
• Rental Income	... }	
• Gain (Profit) on Sale of Fixed Assets	... }	
• Decrease in Provision for Doubtful Debts	... }	
(D) Operating Profit before Working Capital Changes (A + B – C)	... }	

(E) Add: Decrease in Current Assets and Increase in Current Liabilities		
• Decrease in Inventories (Stock)	...	Profit is adjusted for change in Working Capital due to decrease in Current Assets and increase in Current Liabilities. It adjusts the difference between Accrual Basis and Cash Basis of Accounting.
• Decrease in Trade Receivables (Debtors and Bills Receivable)	...	
• Decrease in Accrued Incomes	...	
• Decrease in Prepaid Expenses	...	
• Increase in Trade Payables (Creditors and Bills Payable)	...	
• Increase in Outstanding Expenses	...	
• Increase in Advance Incomes	...	
(F) Less: Increase in Current Assets and Decrease in Current Liabilities		
• Increase in Inventories (Stock)	...	Profit is adjusted for change in Working Capital due to decrease in Current Liabilities and increase in Current Assets. It adjusts the difference between Accrual Basis and Cash Basis of Accounting.
• Increase in Trade Receivables (Debtors and Bills Receivable)	...	
• Increase in Accrued Incomes	...	
• Increase in Prepaid Expenses	...	
• Decrease in Trade Payables (Creditors and Bills Payable)	...	
• Decrease in Outstanding Expenses	...	
• Decrease in Advance Incomes	...	
(G) Cash Generated from Operations (D + E - F)	...	Net balance after above adjustments is Cash Generated from Operations during the accounting year from which Income Tax (Net of Refund) is deducted.
(H) Less: Income Tax Paid (Net of Tax Refund)	...	
(I) Cash Flow before Extraordinary Items	...	Extraordinary items are added to or deducted from Cash Balance as per above to determine Cash Flow from Operating Activities.
• Extraordinary Items (+/-)	...	
(J) Cash Flow from (or Used in) Operating Activities	...	
II. Cash Flow from Investing Activities		
• Proceeds from Sale of Fixed Assets	...	It shows cash (including Bank) received/paid from sale/to purchase Property, Plant and Equipment and Intangible Assets. Purchase and/or sale of Long-term Investments are shown under Investing Activities. Dividend received, interest received on investments are also shown under Investing Activities. Positive (inflow) Cash Flow means reduced investment while negative (outflow) means increased investment.
• Proceeds from Sale of Investments (Other than Current Investments (to be included in Cash and Cash Equivalents) and Marketable Securities)	...	
• Proceeds from Sale of Intangible Assets	...	
• Interest and Dividend received (For Non-financial Companies only)	...	
• Rent Received	...	
• Payment for Purchase of Fixed Assets	(...)	
• Payment for Purchase of Investments (Other than Marketable Securities)	(...)	
• Payment for Purchase of Intangible Assets like Goodwill	(...)	
• Extraordinary Items (e.g., Insurance Claim on Machinery against Fire) (+/-)	...	
Cash Flow from (or Used in) Investing Activities	...	

III. Cash Flow from Financing Activities			
• Proceeds from Issue of Shares and Debentures	...		It shows receipt (inflow) of cash (including Bank) from and payments (outflow) to the company's shareholders and lenders.
• Proceeds from Other Long-term Borrowings	...		
• Increase/Decrease in Bank Overdraft and Cash Credit	...		
• Payment of Final Dividend (on both Equity and Preference Share Capital)	(...)		
• Payment of Interim Dividend	(...)		
• Payment of Interest on Debentures and Loans (Short-term and Long-term)	(...)		
• Repayment of Loans	(...)		
• Redemption of Debentures/Preference Shares	(...)		
• Payment of Share Issue Expenses or Underwriting Commission	(...)		
• Payment for Buy-back of Shares as Extraordinary Activity	(...)		
Cash Flow from (or Used in) Financing Activities		...	
IV. Net Increase/Decrease in Cash and Cash Equivalents (I + II + III)		...	Shows net increase/decrease in Cash and Cash Equivalents during the year from three activities, i.e., Operating, Investing and Financing.
V. Add: Cash and Cash Equivalents in the beginning of the year			Opening Cash and Cash Equivalents is added to Net Increase/Decrease of Cash and Cash Equivalents.
• Cash on Hand	...		
• Cash at Bank	...		
• Short-term Deposits	...		
• Current Investments	...		
• Marketable Securities	
VI. Cash and Cash Equivalents at the end of the year			Resulting Cash and Cash Equivalents matches Closing Cash and Cash Equivalents.
• Cash on Hand	...		
• Cash at Bank	...		
• Short-term Deposits	...		
• Current Investments	...		
• Marketable Securities	

Note: Amount in brackets means amount that is to be deducted.

Working Note:

Net Profit before Tax and Extraordinary Items:	₹
Net Profit as per Statement of Profit & Loss or Difference between Closing Balance and Opening Balance of Surplus, i.e., Balance in Statement of Profit & Loss	...
Add: Transfer to Reserves	...
Dividend Payable (Proposed Dividend of previous year) paid during the year	...
Interim Dividend paid during the year	...
Provision for Tax for the current year	...
Extraordinary Items, if any, debited to the Statement of Profit & Loss	...
	...
Less: Extraordinary Items, if any, credited to the Statement of Profit & Loss	...
Refund of Tax credited to the Statement of Profit & Loss	...
Net Profit before Tax and Extraordinary Items	...

Note: Net Profit before Tax and Extra-ordinary Items may be shown in the Cash Flow Statement, instead of showing it as a Working Note.

IMPORTANT NOTE

1. Current Investments to be taken as Marketable Securities unless otherwise specified.
2. Bank overdraft and cash credit is treated as short-term Borrowings.

SOLVED QUESTIONS

Illustration 1. Following relevant information is obtained from the books of X Ltd.:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
Short-term Provision: Provision for Tax		70,000	50,000

The amount of tax paid during 2025–26 amounted to ₹ 40,000. How would you deal with this item while preparing Cash Flow Statement? You are also given net profit after taxation ₹ 80,000.

Solution:

PROVISION FOR TAX ACCOUNT			
Dr.	₹	Cr.	₹
To Bank A/c (Tax Paid)	40,000	By Balance b/d	50,000
To Balance c/d	70,000	By Statement of Profit & Loss (Bal. Fig.) (Tax Provided)	60,000
	<u>1,10,000</u>		<u>1,10,000</u>

Note: If Opening and Closing amounts of Provision for Tax are given with the figure of tax paid (provided) during the year, prepare Provision for Tax Account to ascertain the amount of tax provided (paid) during the current year.

CASH FLOW FROM OPERATING ACTIVITIES

Particulars	₹	₹
Net Profit after Tax	80,000	
Add: Provision for Tax	60,000	
Cash Generated from Operations		1,40,000
Less: Tax Paid		40,000
Cash Flow from Operating Activities		<u>1,00,000</u>

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Illustration 2. Calculate Net Profit before Tax and Extraordinary Items from the following Balance Sheet of Prime Hotels Ltd. as at 31st March, 2026:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		8,00,000	6,00,000
(b) Reserves and Surplus	1	3,30,000	2,20,000
2. Current Liabilities			
(a) Short-term Borrowings	2	40,000	55,000
(b) Trade Payables		50,000	80,000
(c) Other Current Liabilities		25,000	10,000
(d) Short-term Provisions	3	70,000	40,000
Total		13,15,000	10,05,000
II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets: —Property, Plant and Equipment		9,75,000	6,05,000
(b) Non-current Investments		1,10,000	1,00,000
2. Current Assets			
Total		13,15,000	10,05,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
General Reserve	1,20,000	80,000
Surplus, i.e., Balance in Statement of Profit & Loss	2,10,000	1,40,000
	3,30,000	2,20,000
2. Short-term Borrowings		
Bank Overdraft	40,000	55,000
3. Short-term Provisions		
Provision for Tax	70,000	40,000

Note: Proposed dividend for the years ended 31st March, 2025 and 2026 are ₹ 90,000 and ₹ 1,00,000 respectively.

Solution:

<i>Net Profit before Tax and Extraordinary Items:</i>	₹
Surplus, i.e., Balance in Statement of Profit & Loss (Closing)	2,10,000
Less: Surplus, i.e., Balance in Statement of Profit & Loss (Opening)	<u>1,40,000</u>
	70,000
Add: Transfer to General Reserve (₹ 1,20,000 – ₹ 80,000)	40,000
Dividend (Previous Year) Paid during the year	90,000
Provision for Tax (Current Year)	<u>70,000</u>
Net Profit before Tax and Extraordinary Items	<u>2,70,000</u>

Illustration 3. Calculate Cash Flow from Operating Activities from the following information:

	₹
Net Profit (After Provision for Tax ₹ 3,06,000)	14,06,000
Proposed Dividend	2,42,000
<i>Above Net Profit is determined after following Credit and Debits:</i>	
Credits:	
(i) Compensation for Earthquake Disaster	1,50,000
(ii) (Gain) Profit on Sale of Machinery	35,000
(iii) Dividend Received on Investments	30,000
Debits:	
(i) Depreciation	2,80,000
(ii) Loss on Sale of Investments	60,000
<i>Decrease or Increase in Current Assets and Current Liabilities is as follows:</i>	
Decrease in Current Assets (Other than Cash and Cash Equivalents)	20,000
Increase in Current Liabilities (Other than Bank Overdraft and Cash Credit)	3,02,000
Increase in Current Assets (Other than Cash and Cash Equivalents)	6,00,000
Decrease in Current Liabilities (Other than Bank Overdraft and Cash Credit)	1,28,000
<i>Other Information:</i>	
Income Tax Paid	2,36,000
Refund of Income Tax Received	6,000

Solution:

CASH FLOW FROM OPERATING ACTIVITIES

Particulars	₹
Net Profit After Tax	14,06,000
Add: Provision for Tax	3,06,000
	17,12,000
Less: Refund of Income Tax	6,000
<i>Extraordinary Items: Compensation for Earthquake Disaster</i>	1,50,000
	1,56,000
Net Profit before Tax and Extraordinary Items	15,56,000
<i>Add: Non-Cash/Non-Operating Items:</i>	
Depreciation	2,80,000
Loss on Sale of Investments	60,000
<i>Less: Non-Cash/Non-Operating Items:</i>	
Gain (Profit) on Sale of Machinery	(35,000)
Dividend Received on Investments	(30,000)
	18,31,000
Operating Profit before Working Capital Changes	18,31,000
<i>Add:</i>	
Decrease in Current Assets	20,000
Increase in Current Liabilities	3,02,000
	21,53,000
<i>Less:</i>	
Increase in Current Assets	(6,00,000)
Decrease in Current Liabilities	(1,28,000)
	(7,28,000)
Cash Flow from Operating Activities before Tax and Extraordinary Items	14,25,000
Less: Income Tax Paid (Net of Refund)	(2,30,000)
Cash Flow from Operating Activities after Tax	11,95,000
Add: <i>Extraordinary Item: Compensation for Earthquake Disaster</i>	1,50,000
Cash Flow from Operating Activities	13,45,000

Note: Proposed Dividend is not taken as the Net Profit given is after Provision for Tax.

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Illustration 4. From the following information, calculate Cash Flow from Operating Activities and Investing Activities:

Particulars	31st March, 2025 (₹)	31st March, 2026 (₹)
Surplus, <i>i.e.</i> , Balance in Statement of Profit & Loss	50,000	2,00,000
Provision for Tax	15,000	15,000
Trade Payables	20,000	75,000
Current Assets (Inventories and Trade Receivables)	2,30,000	2,60,000
Property, Plant and Equipment	4,25,000	4,66,000
Accumulated Depreciation	2,12,500	2,20,000

Additional Information:

- Tax paid during the year ₹ 15,000.
- A machine costing ₹ 40,000 (Book value ₹ 10,000) was sold at a gain (profit) of ₹ 4,000.

Solution:

CASH FLOW FROM OPERATING ACTIVITIES AND INVESTING ACTIVITIES

Particulars	₹
(A) Cash Flow from Operating Activities	
Net Profit before Tax and Extraordinary Items (WN 1)	1,65,000
Add: Depreciation (WN 3)	37,500
Less: Gain (Profit) on Sale of Machinery	(4,000)
<i>Operating Profit before Working Capital changes</i>	1,98,500
Less: Increase in Current Assets	(30,000)
Add: Increase in Trade Payable	55,000
	2,23,500
Less: Tax Paid	15,000
Cash Flow from Operating Activities	2,08,500
(B) Cash Flow from Investing Activities	
Sale of Machinery	14,000
Purchase of Property, Plant and Equipment (WN 2)	(81,000)
Cash Used in Investing Activities	(67,000)

Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary Items:	₹
Closing Surplus, <i>i.e.</i> , Balance in Statement of Profit & Loss	2,00,000
Less: Opening Surplus, <i>i.e.</i> , Balance in Statement of Profit & Loss	50,000
	1,50,000
Add: Provision for Tax made during the Current Year	15,000
Net Profit before Tax and Extraordinary Items	1,65,000

2. Dr. PROPERTY, PLANT AND EQUIPMENT ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	4,25,000	By Bank A/c (Sale)	14,000
To Gain (Profit) on Sale of Asset A/c (Statement of Profit & Loss)	4,000	By Accumulated Depreciation A/c (Depreciation on Sold Machine)	30,000
To Bank A/c (Purchase) (Bal. Fig.)	81,000	By Balance <i>c/d</i>	4,66,000
	5,10,000		5,10,000

3. Dr. ACCUMULATED DEPRECIATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Property, Plant and Equipment A/c (Transfer)	30,000	By Balance b/d	2,12,500
To Balance c/d	2,20,000	By Depreciation A/c (Bal. Fig.)	37,500
	<u>2,50,000</u>		<u>2,50,000</u>

Illustration 5. Calculate Cash Flow from Financing Activities from the following:

Particulars	31st March, 2025 (₹)	31st March, 2026 (₹)
Equity Share Capital	6,00,000	8,00,000
12% Preference Share Capital	2,00,000	...
10% Debentures	...	1,00,000

Additional Information:

- Equity shares were issued at a premium of 15%, underwriting commission paid thereon ₹ 10,000.
- 12% Preference shares were redeemed at a premium of 5%.
- 10% Debentures were issued at a discount of 10%.
- Interest paid on debentures ₹ 10,000.
- Dividend paid on preference shares ₹ 24,000.
- Interim dividend paid on equity shares ₹ 64,000.

Solution:

CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
Issue of Equity Shares (₹ 2,00,000 + ₹ 30,000)	2,30,000
Redemption of 12% Preference Shares (₹ 2,00,000 + ₹ 10,000)	(2,10,000)
Issue of 10% Debentures (₹ 1,00,000 – ₹ 10,000)	90,000
Underwriting Commission Paid	(10,000)
Interest Paid on Debentures	(10,000)
Dividend Paid on Preference Shares	(24,000)
Interim Dividend Paid on Equity Shares	(64,000)
Cash Flow from Financing Activities	2,000

Illustration 6. X Ltd. provides the following information, calculate the Net Cash Flow from Investing Activities and Net Cash Flow from Financing Activities as per AS-3 (Revised):

Particulars	31st March, 2025 (₹)	31st March, 2026 (₹)
8% Preference Share Capital	2,00,000	1,50,000
Equity Share Capital	5,00,000	10,00,000
11% Debentures	2,00,000	1,00,000
Securities Premium	...	50,000
Investment	1,00,000	2,50,000
Goodwill	...	1,00,000
Machinery	2,15,000	4,00,000
Patents	1,50,000	...

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Additional Information:

1. Dividend on equity shares ₹ 50,000. The company paid preference dividend also.
2. Dividend received on shares held as an investment ₹ 15,000.
3. Interest received on 'Government Bonds' held as an investment ₹ 26,000.
4. A plot of land was purchased out of surplus funds for investment purposes and was let out for commercial use and rent received ₹ 1,10,000.
5. All issues and redemption were made at the end of the year.

Solution: CASH FLOW FROM INVESTING ACTIVITIES AND FINANCING ACTIVITIES

Particulars		₹
(A) Cash Flow from Investing Activities		
Sale of Patents	1,50,000	
Interest received on Government Bonds	26,000	
Dividend Received on Shares held as Investments	15,000	
Rent received on Plot of Land	1,10,000	3,01,000
Goodwill Purchased	(1,00,000)	
Investment Purchased	(1,50,000)	
Machinery Purchased	(1,85,000)	(4,35,000)
Cash Used in Investing Activities		(1,34,000)
(B) Cash Flow from Financing Activities		
Issue of Share Capital (including premium)	5,50,000	
Dividend Paid	(50,000)	
Preference Dividend Paid	(16,000)	
Redemption of Preference Shares	(50,000)	
Redemption of Debentures	(1,00,000)	
Interest on Debentures (Note)	(22,000)	3,12,000
Cash Flow from Financing Activities		3,12,000

Note: It is presumed that the company must have paid Interest on Debentures as it cannot pay Preference Dividend and Equity Dividend without payment of interest. Decrease in Patents is considered as Sales.

Illustration 7. Following is the extract from the Balance Sheet of Atlas Ltd.:

Particulars	Note No.	31st March, 2025 (₹)	31st March, 2026 (₹)
I. EQUITY AND LIABILITIES			
Shareholders' Funds			
<i>Reserves and Surplus: Surplus, i.e., Balance in Statement of Profit & Loss</i>		5,00,000	9,00,000
II. ASSETS			
Goodwill		11,50,000	9,00,000
Patents		9,00,000	11,50,000
Land		2,50,000	10,50,000
Plant and Machinery		85,00,000	93,20,000
<i>Less: Provision for Depreciation</i>		(42,50,000)	(44,00,000)
10% Investment		10,50,000	2,50,000

Additional Information:

1. Investments costing ₹ 2,00,000 were purchased and some investments were sold at a loss of 20% on 31st March, 2026.
2. Goodwill amortised was ₹ 5,00,000 and patents purchased was ₹ 5,00,000.

3. Depreciation provided on Plant and Machinery was ₹ 14,50,000. A machine costing ₹ 21,00,000 was sold at profit of 20%.

Calculate Cash Flow from Operating Activities and Cash Flow from Investing Activities.

Solution:

Atlas Ltd.

CASH FLOW STATEMENT for the year ended 31st March, 2026

Particulars		₹
(A) Cash Flow from Operating Activities		
Surplus, i.e., Balance in Statement of Profit & Loss (Closing)	9,00,000	
Less: Surplus, i.e., Balance in Statement of Profit & Loss (Opening)	5,00,000	
Net Profit before Tax	4,00,000	
Add: Patents Amortised (WN 2)	2,50,000	
Goodwill Amortised (WN 1)	5,00,000	
Depreciation	14,50,000	
Loss on Sale of investment (WN 4)	2,00,000	
Less: Gain (Profit) on Sale of Machinery	(1,60,000)	
Income from Investment	(1,05,000)	25,35,000
Cash Flow from Operating Activities		25,35,000
(B) Cash Flow from Investing Activities		
Purchase of Land (WN 3)	(8,00,000)	
Purchase of Investment	(2,00,000)	
Sale of Investment (WN 4)	8,00,000	
Income from Investment	1,05,000	
Purchase of Machinery (WN 5)	(29,20,000)	
Sale of Machinery (WN 5)	9,60,000	
Purchase of Patents	(5,00,000)	
Purchase of Goodwill (WN 1)	(2,50,000)	(28,05,000)
Cash Used in Investing Activities		(28,05,000)

Working Notes:

1. Dr. GOODWILL ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	11,50,000	By Statement of Profit & Loss (Amortised)	5,00,000
To Bank A/c (Purchase) (Bal. Fig.)	2,50,000	By Balance c/d	9,00,000
	14,00,000		14,00,000

2. Dr. PATENTS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	9,00,000	By Statement of Profit & Loss (Amortised)	2,50,000
To Bank A/c (Purchase)	5,00,000	(Bal. Fig.)	
	14,00,000	By Balance c/d	11,50,000
			14,00,000

3. Dr. LAND ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	2,50,000	By Balance c/d	10,50,000
To Bank A/c (Purchase) (Bal. Fig.)	8,00,000		
	10,50,000		10,50,000

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4. Dr.		10% INVESTMENT ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Balance b/d	10,50,000	By Bank A/c (80% of ₹ 10,00,000) (Bal. Fig.)		8,00,000
To Bank A/c (Purchased)	2,00,000	By Loss on Sale of Investment A/c (Statement of Profit & Loss)		2,00,000
		By Balance c/d		2,50,000
	<u>12,50,000</u>			<u>12,50,000</u>

5. Dr.		PLANT AND MACHINERY ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Balance b/d	85,00,000	By Bank A/c (Sale)		9,60,000*
To Gain (Profit) on Sale of Machine A/c (Statement of Profit & Loss)	1,60,000	By Provision for Depreciation A/c		13,00,000
To Bank A/c (Purchase) (Bal. Fig.)	29,20,000	By Balance c/d		93,20,000
	<u>1,15,80,000</u>			<u>1,15,80,000</u>

* ₹ 21,00,000 – ₹ 13,00,000 (All Depreciation) + 20% of (₹ 21,00,000 – ₹ 13,00,000) = ₹ 9,60,000.

6. Dr.		PROVISION FOR DEPRECIATION ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Plant and Machinery A/c (Bal. Fig.) (Accumulated Depreciation)	13,00,000	By Balance b/d		42,50,000
To Balance c/d	44,00,000	By Depreciation A/c (Depreciation Provided)		14,50,000
	<u>57,00,000</u>			<u>57,00,000</u>

Illustration 8. Prepare Cash Flow Statement on the basis of the information given in the Balance Sheet of P.S. Ltd. as at 31st March, 2026:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		2,50,000	2,00,000
(b) Reserves and Surplus	1	70,000	50,000
2. Non-Current Liabilities			
Long-term Borrowings (12% Debentures)		80,000	80,000
3. Current Liabilities			
(a) Short-term Borrowings	2	...	20,000
(b) Trade Payables	3	1,60,000	60,000
(c) Other Current Liabilities (Outstanding Expenses)		20,000	25,000
Total		<u>5,80,000</u>	<u>4,35,000</u>
II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets:			
(i) Property, Plant and Equipment: Land and Building		2,80,000	2,00,000
(ii) Intangible Assets: Patents		2,000	10,000
(b) Long-term Loans and Advances		1,30,000	1,00,000
2. Current Assets			
(a) Current Investments		5,000	3,000
(b) Inventories		90,000	70,000
(c) Trade Receivables		60,000	40,000
(d) Cash and Cash Equivalents		13,000	12,000
Total		<u>5,80,000</u>	<u>4,35,000</u>

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
Surplus, i.e., Balance in Statement of Profit & Loss	70,000	50,000
2. Short-term Borrowings		
Current Maturities of Long-term Debts (12% Debentures)	...	20,000
3. Trade Payables		
Creditors	60,000	40,000
Bills Payable	1,00,000	20,000
	1,60,000	60,000

Solution:

P.S. Ltd.

CASH FLOW STATEMENT for the year ended 31st March, 2026

Particulars	₹	
I. Cash Flow from Operating Activities		
Closing Balance of Surplus, i.e., Balance in Statement of Profit & Loss		70,000
Less: Opening Balance of Surplus, i.e., Balance in Statement of Profit & Loss		50,000
Net Profit before Tax and Extraordinary Items		20,000
Add: Non-cash Expenses: Patents Amortised	8,000	
Non-operating Expense: Interest on 12% Debentures*	12,000	20,000
Operating Profit before Working Capital Changes		40,000
Add: Increase in Current Liabilities:		
Creditors	20,000	
Bills Payable	80,000	1,00,000
		1,40,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Outstanding Expenses	5,000	
Trade Receivables	20,000	
Inventories	20,000	45,000
Cash Flow from Operating Activities		95,000
II. Cash Flow from Investing Activities		
Purchase of Land and Building		(80,000)
Loans and Advances		(30,000)
Cash Used in Investing Activities		(1,10,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares		50,000
Repayment of Long-term Borrowings		(20,000)
Interest on 12% Debentures		(12,000)
Cash Flow from Financing Activities		18,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		3,000
V. Cash and Cash Equivalents in the beginning of the Year (₹ 3,000 + ₹ 12,000)		15,000
VI. Cash and Cash Equivalents at the end of the Year (IV + V) (₹ 5,000 + ₹ 13,000)		18,000

*Debentures' interest @ 12% on ₹ 1,00,000.

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Illustration 9. From the following Balance Sheet of Bhushan Steel Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	9,50,000	8,00,000
(b) Reserves and Surplus	2	1,44,000	(20,000)
2. Non-Current Liabilities			
Long-term Borrowings: 15% Debentures		5,00,000	4,00,000
3. Current Liabilities			
(a) Trade Payables		2,02,000	82,000
(b) Short-term Provisions (Provision for Tax)		18,000	18,000
Total		18,14,000	12,80,000
II. ASSET			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets: —Property, Plant and Equipment	3	9,04,000	3,40,000
(b) Investments (Non-Current)		90,000	80,000
2. Current Assets			
(a) Inventories		4,00,000	3,00,000
(b) Trade Receivables	4	1,12,000	3,52,000
(c) Cash and Cash Equivalents		3,08,000	2,08,000
Total		18,14,000	12,80,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	8,00,000	6,00,000
12% Preference Share Capital	1,50,000	2,00,000
	9,50,000	8,00,000
2. Reserves and Surplus		
Securities Premium	10,000	10,000
Surplus, i.e., Balance in Statement of Profit & Loss	1,34,000	(30,000)
	1,44,000	(20,000)
3. Property, Plant and Equipment		
Plant and Machinery	10,00,000	4,00,000
Less: Accumulated Depreciation	96,000	60,000
	9,04,000	3,40,000
4. Trade Receivables		
Sundry Debtors	1,44,000	3,72,000
Less: Provision for Doubtful Debts	32,000	20,000
	1,12,000	3,52,000

Additional Information:

- Dividend on equity shares @ 9% was paid during the year.
- Investments costing ₹ 20,000 were sold at a profit of 40%.
- Plant costing ₹ 40,000 (accumulated depreciation ₹ 16,000) were sold for ₹ 34,000.
- Fresh Equity Shares were issued at a premium of 5% and preference shares were redeemed at par on 1st April, 2025.
- Additional debentures amounting to ₹ 1,00,000 issued on 1st August, 2025 at a discount of 10% but redeemable at par after two years. The company wrote off discount on issue of debentures from Securities Premium.

Solution:

Bhushan Steel Ltd.

CASH FLOW STATEMENT for the year ended 31st March, 2026

Particulars	₹	₹
(A) Cash Flow from Operating Activities		
Net Profit (WN 1)	1,64,000	
Add: Interim Dividend on Equity Shares Paid during the year	72,000	
Provision for Tax	18,000	
Dividend on Preference Shares	18,000	
Net Profit before Tax and Extraordinary Items	2,72,000	
Add: <i>Non-Cash/Non-Operating Items:</i>		
Depreciation (WN 3)	52,000	
Interest on Debentures (WN 5)	70,000	
Provision for Doubtful Debts	12,000	
	1,34,000	
	4,06,000	
Less: Gain (Profit) on Sale of Investments (being Investing Activity)	8,000	
Gain (Profit) on Sale of Fixed Assets (being Investing Activity)	10,000	
Operating Profit before Working Capital Changes	3,88,000	
Add: <i>Decrease in Current Assets:</i>		
Trade Receivables	2,28,000	
<i>Increase in Current Liabilities:</i>		
Trade Payables	1,20,000	
	3,48,000	
	7,36,000	
Less: <i>Increase in Current Assets:</i>		
Inventories	1,00,000	
Cash Generated from Operations	6,36,000	
Less: Tax Paid	18,000	
	6,18,000	6,18,000
(B) Cash Flow from Investing Activities		
Purchase of Plant and Machinery (WN 2 and 3)	(6,40,000)	
Sale of Plant and Machinery	34,000	
Purchase of Investments (WN 4)	(30,000)	
Sale of Investments	28,000	
Cash Used in Investing Activities	(6,08,000)	(6,08,000)
(C) Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares	2,00,000	
Premium Received on Issue of Shares	10,000	
Proceeds from Issue of Debentures	90,000	
Redemption of Preference Shares	(50,000)	
Dividend Paid on Equity Shares	(72,000)	
Dividend on Preference Shares	(18,000)	
Interest on Debentures Paid	(70,000)	
Cash Flow from Financing Activities	90,000	90,000
Net Increase in Cash and Cash Equivalents (A + B + C)		1,00,000
Add: Cash and Cash Equivalents in the beginning of the year		2,08,000
Cash and Cash Equivalents at the end of the year		3,08,000

Working Notes:

1. Negative Surplus, i.e., Balance in Statement of Profit & Loss of ₹ 30,000 appearing in the previous year's Balance Sheet means the amount of loss. In the current year, after covering this loss of ₹ 30,000, surplus of ₹ 1,34,000 is appearing on the liabilities side. It means that during the current year net profit earned by the company is ₹ 1,64,000 (i.e., ₹ 1,34,000 + ₹ 30,000).

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2. Dr. PLANT AND MACHINERY ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	4,00,000	By Bank A/c (Sale)	34,000
To Gain (Profit) on Sale of Plant A/c (Statement of Profit & Loss)	10,000	By Accumulated Depreciation A/c (Depreciation on Plant Sold)	16,000
To Bank A/c (Bal. Fig., being Purchase)	6,40,000	By Balance <i>c/d</i>	10,00,000
	<u>10,50,000</u>		<u>10,50,000</u>

3. Dr. ACCUMULATED DEPRECIATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Plant and Machinery A/c (Transfer of Depreciation on Plant Sold)	16,000	By Balance <i>b/d</i>	60,000
To Balance <i>c/d</i>	96,000	By Depreciation (Bal. Fig.) (Statement of Profit & Loss)	52,000
	<u>1,12,000</u>		<u>1,12,000</u>

4. Dr. INVESTMENTS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	80,000	By Bank A/c (Sale) (₹ 20,000 + 40% of ₹ 20,000)	28,000
To Gain (Profit) on Sale of Investment A/c (Statement of Profit & Loss)	8,000	By Balance <i>c/d</i>	90,000
To Bank A/c (Bal. Fig., being Purchase)	30,000		
	<u>1,18,000</u>		<u>1,18,000</u>

5. Interest on Debentures = (₹ 4,00,000 × 15/100) + (₹ 1,00,000 × 15/100 × 8/12) = ₹ 60,000 + ₹ 10,000 = ₹ 70,000.

6. Since dividend payment on preference shares has a priority over payment of interim dividend payment on equity shares so payment of dividend on preference shares is implied.

Illustration 10. Prepare Cash Flow Statement on the basis of information given in the Balance Sheet of Simco Ltd. as at 31st March, 2026:

BALANCE SHEET as at 31st March, 2026

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	1,00,000	80,000
(b) Reserves and Surplus	2	10,000	6,000
2. Non-Current Liabilities			
Long-term Borrowings	3	14,000	12,000
3. Current Liabilities			
(a) Trade Payables		22,000	24,000
(b) Short-term Provisions	4	8,400	6,000
Total		<u>1,54,400</u>	<u>1,28,000</u>

II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
—Property, Plant and Equipment	5	50,000	60,000
2. Current Assets			
(a) Inventories		62,000	50,000
(b) Trade Receivables		34,400	15,000
(c) Cash and Cash Equivalents		7,000	2,400
(d) Other Current Assets	6	1,000	600
Total		1,54,400	1,28,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	80,000	55,000
12% Preference Share Capital	20,000	25,000
	1,00,000	80,000
2. Reserves and Surplus		
General Reserve	7,600	4,000
Surplus, i.e., Balance in Statement of Profit & Loss	2,400	2,000
	10,000	6,000
3. Long-term Borrowings		
15% Debentures	14,000	12,000
4. Short-term Provisions		
Provision for Taxation	8,400	6,000
5. Property, Plant and Equipment		
Machinery (Cost)	80,000	82,000
Less: Accumulated Depreciation	30,000	22,000
	50,000	60,000
6. Other Current Assets		
Prepaid Expenses	1,000	600

Additional Information:

1. Proposed Dividend for the year ended 31st March, 2025 and 2026 are ₹ 10,000 and ₹ 8,000 respectively.
2. Provision for tax made ₹ 9,400.
3. Machinery costing ₹ 20,000 (accumulated depreciation till date of sale ₹ 6,000) were sold for ₹ 10,000.
4. New Debentures were issued on 31st March, 2026.

Solution:

Simco Ltd.

CASH FLOW STATEMENT for the year ended 31st March, 2026

Particulars	₹	₹
(A) Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items (WN 1)	23,400	
<i>Add:</i> Depreciation (WN 4)	14,000	
Interest on Debentures (15% of ₹ 12,000)	1,800	
Loss on Sale of Machinery (WN 3)	4,000	
Operating Profit before Working Capital Changes	43,200	

<i>Adjustment for Change in Current Assets and Current Liabilities:</i>		
Decrease in Trade Payable	(2,000)	
Increase in Inventories	(12,000)	
Increase in Trade Receivables	(19,400)	
Increase in Prepaid Expenses	(400)	
<i>Cash Generated from Operating Activities before Tax</i>	9,400	
<i>Less: Tax Paid (WN 2)</i>	7,000	
Cash Flow from Operating Activities		2,400
(B) Cash Flow from Investing Activities		
Purchase of Machinery (WN 3)	(18,000)	
Sale of Machinery (WN 3)	10,000	
Cash Used in Investing Activities		(8,000)
(C) Cash Flow from Financing Activities		
Proceeds from Issue of Equity Share Capital	25,000	
Redemption of 12% Preference Shares	(5,000)	
Proceeds from Issue of 15% Debentures	2,000	
Interest on Debentures	(1,800)	
Final Dividend Paid during the year	(10,000)	
Cash Flow from Financing Activities		10,200
(D) Net Increase in Cash and Cash Equivalents (A + B + C)		4,600
<i>Add: Opening Balance of Cash and Cash Equivalents</i>		2,400
(E) Closing Balance of Cash and Cash Equivalents		7,000

Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary Items:			₹
Difference between Closing and Opening balance of Surplus, i.e.,			
Balance in Statement of Profit & Loss			400
<i>Add: Transfer to General Reserve</i>	3,600		
Proposed Dividend (Previous Year) paid during the year	10,000		
Provision for Tax	9,400		
Net Profit before Tax and Extraordinary Items			23,400

2. Dr.		PROVISION FOR TAX ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Bank A/c (Tax Paid) (Bal. Fig.)	7,000	By Balance b/d	6,000		
To Balance c/d	8,400	By Statement of Profit & Loss (Provision Made)	9,400		
	15,400				15,400

3. Dr.		MACHINERY ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	82,000	By Bank A/c (Sale)	10,000		
To Bank A/c (Bal. Fig.)	18,000	By Accumulated Depreciation A/c	6,000		
		By Loss on Sale of Asset A/c (Statement of Profit & Loss)	4,000		
		By Balance c/d	80,000		
	1,00,000				1,00,000

4. Dr. ACCUMULATED DEPRECIATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	6,000	By Balance b/d	22,000
To Balance c/d	30,000	By Depreciation A/c (Balancing Figure) (Statement of Profit & Loss)	14,000
	36,000		36,000

Illustration 11. From the following Balance Sheet of ABC Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		5,00,000	5,00,000
(b) Reserves and Surplus	1	2,75,000	1,50,000
2. Non-Current Liabilities			
Long-term Borrowings	2	6,00,000	4,75,000
3. Current Liabilities			
(a) Short-term Borrowings	3	75,000	50,000
(b) Trade Payables		1,75,000	1,00,000
(c) Short-term Provisions	4	1,25,000	1,00,000
Total		17,50,000	13,75,000
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) Property, Plant and Equipment	5	10,75,000	9,25,000
(ii) Intangible Assets	6	25,000	37,500
2. Current Assets			
(a) Inventories		2,50,000	1,37,500
(b) Trade Receivables		2,25,000	1,25,000
(c) Cash and Cash Equivalents		1,37,500	1,00,000
(d) Other Current Assets	7	37,500	50,000
Total		17,50,000	13,75,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
General Reserve	87,500	50,000
Surplus, i.e., Balance in Statement of Profit & Loss	1,87,500	1,00,000
	2,75,000	1,50,000
2. Long-term Borrowings		
10% Debentures	3,75,000	2,50,000
Mortgage Loan	2,25,000	2,25,000
	6,00,000	4,75,000
3. Short-term Borrowings		
Bank Overdraft	55,000	25,000
Cash Credit	20,000	25,000
	75,000	50,000
4. Short-term Provisions		
Provision for Tax	1,25,000	1,00,000

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5. Property, Plant and Equipment		
Land and Building	3,50,000	6,50,000
Machinery	7,25,000	2,75,000
	10,75,000	9,25,000
6. Intangible Assets		
Brands	25,000	37,500
7. Other Current Assets		
Prepaid Expenses	37,500	50,000

Additional Information:

1. During the year ₹ 27,500 depreciation was charged on machinery.
2. Gain on sale of Land and Building ₹ 50,000.
3. Interest paid ₹ 62,500.

Solution:

ABC Ltd.

CASH FLOW STATEMENT for the year ended 31st March, 2026

Particulars	₹	₹
(A) Cash Flow from Operating Activities		
Net Profit (₹ 1,87,500 – ₹ 1,00,000)	87,500	
Add: Transfer to General Reserve	37,500	
Provision for Tax (Current Year)	1,25,000	
Net Profit before Tax	2,50,000	
Adjustment for Non-cash and Non-operating Items:		
Add: Depreciation	27,500	
Brands written off	12,500	
Interest Paid	62,500	
Less: Gain on Sale of Land and Building	(50,000)	
Operating Profit before Working Capital Changes	3,02,500	
Add: Increase in Current Liabilities and Decrease in Current Assets:		
Trade Payables	75,000	
Prepaid Expenses	12,500	
Less: Increase in Current Assets:		
Inventories	(1,12,500)	
Trade Receivables	(1,00,000)	
Net Cash Inflow from Operating Activities before Tax	1,77,500	
Less: Income Tax Paid	1,00,000	
Cash Flow from Operating Activities		77,500
(B) Cash Flow from Investing Activities		
Sale of Land and Building (WN 1)	3,50,000	
Purchase of Machinery (WN 2)	(4,77,500)	
Cash Used in Investing Activities		(1,27,500)
(C) Cash Flow from Financing Activities		
Proceed from Bank Overdraft	30,000	
Issue of Debentures	1,25,000	
Payment of Cash Credit	(5,000)	
Interest Paid	(62,500)	
Cash Flow from Financing Activities		87,500
(D) Net Increase in Cash and Cash Equivalents (A + B + C)		37,500
(E) Add: Cash and Cash Equivalents at the beginning		1,00,000
(F) Cash and Cash Equivalents at the end (D + E)		1,37,500

Working Notes:

1. Dr.		LAND AND BUILDING ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Balance b/d	6,50,000	By Bank A/c (Sale)		3,50,000
To Gain on Sale of Land and Building A/c (Statement of Profit & Loss)	50,000	(Bal. Fig.)		
	<u>7,00,000</u>	By Balance c/d		3,50,000
				<u>7,00,000</u>

2. Dr.		MACHINERY ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Balance b/d	2,75,000	By Depreciation A/c		27,500
To Bank A/c (Purchase) (Bal. Fig.)	4,77,500	By Balance c/d		7,25,000
	<u>7,52,500</u>			7,52,500

Illustration 12. From the following Balance Sheet of Essar Steel Ltd. as at 31st March, 2026, prepare its Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	7,00,000	5,00,000
(b) Reserves and Surplus	2	2,50,000	3,25,000
2. Non-Current Liabilities			
Long-term Borrowings	3	2,00,000	2,00,000
3. Current Liabilities			
(a) Short-term Borrowings	4	...	50,000
(b) Short-term Provisions	5	50,000	25,000
Total		<u>12,00,000</u>	<u>11,00,000</u>
II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets:			
Property, Plant and Equipment (Machinery)		5,00,000	3,00,000
(b) Non-current Investments		2,00,000	1,40,000
2. Current Assets			
(a) Inventories		1,50,000	2,00,000
(b) Trade Receivables		1,80,000	1,50,000
(c) Cash and Cash Equivalents		1,70,000	3,10,000
Total		<u>12,00,000</u>	<u>11,00,000</u>

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	6,00,000	3,00,000
12% Preference Share Capital	1,00,000	2,00,000
	<u>7,00,000</u>	<u>5,00,000</u>
2. Reserves and Surplus		
General Reserve	1,50,000	3,75,000
Surplus, i.e., Balance in Statement of Profit & Loss	1,00,000	(50,000)
	<u>2,50,000</u>	<u>3,25,000</u>
3. Long-term Borrowings		
9% Debentures	2,00,000	2,00,000
4. Short-term Borrowings		
Current Maturities of Long-term Debts (9% Debentures)	...	50,000
5. Short-term Provisions		
Provision for Tax	50,000	25,000

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Additional Information:

- (i) Machinery costing ₹ 1,00,000 on which depreciation charged was ₹ 70,000, was sold at a profit of 20% on book value. Depreciation charged during the year amounted to ₹ 70,000.
- (ii) Preference Shares were redeemed at par on 31st March, 2026.
- (iii) Debentures were redeemed on 1st January, 2026 and Equity Shares were issued on 1st April, 2025.
- (iv) The company declared and paid interim dividend on Equity Shares @ 8%. It did not propose final dividend on Equity Shares.
- (v) Non-current Investments costing ₹ 60,000 were sold at a profit of 20%.
- (vi) Income tax ₹ 45,000 was provided.

Solution:

CASH FLOW STATEMENT
for the year ended 31st March, 2026

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)	42,000	
<i>Adjustment for Non-cash and Non-operating Items:</i>		
Add: Depreciation on Machinery (WN 3)	70,000	
Less: Gain (Profit) on Sale of Machinery (WN 3)	(6,000)	
Add: Interest on Debentures [(9% × ₹ 2,50,000 × 9/12) + (9% × ₹ 2,00,000 × 3/12)]	21,375	
Less: Gain (Profit) on Sale of Non-current Investments (WN 4)	(12,000)	
Operating Profit before Working Capital Changes	1,15,375	
Add: Decrease in Current Assets:		
Inventories	50,000	
Less: Increase in Current Assets:		
Trade Receivables	(30,000)	
Net Cash Inflow from Operating Activities	1,35,375	
Less: Tax Paid (WN 2)	20,000	1,15,375
Cash Flow from Operating Activities		1,15,375
B. Cash Flow from Investing Activities		
Purchase of Machinery (WN 3)	(3,00,000)	
Purchase of Non-current Investment (WN 4)	(1,20,000)	
Sale of Machinery (WN 3)	36,000	
Sale of Non-current Investments (WN 4)	72,000	(3,12,000)
Cash Used in Investing Activities		(3,12,000)
C. Cash Flow from Financing Activities		
Cash Proceeds from Issue of Equity Shares (₹ 6,00,000 – ₹ 3,00,000)	3,00,000	
Redemption of 12% Preference Shares	(1,00,000)	
Redemption of 9% Debentures	(50,000)	
Payment of Preference Dividend (12% of ₹ 2,00,000)	(24,000)	
Payment of Equity Dividend (8% of ₹ 6,00,000)	(48,000)	
Payment of Interest on Debentures	(21,375)	56,625
Cash Flow from Financing Activities		56,625
D. Net Decrease in Cash and Cash Equivalents (A + B + C)		(1,40,000)
Add: Opening Cash and Cash Equivalents		3,10,000
E. Closing Cash and Cash Equivalents		1,70,000

Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary Items:	₹
Closing Balance of Surplus, i.e., Balance in Statement of Profit & Loss	1,00,000
Add: Opening Balance of Surplus, i.e., Balance in Statement of Profit & Loss (Debit)	50,000
	1,50,000
Less: Transferred from General Reserve	(2,25,000)
	(75,000)
Add: Provision for Tax	45,000
Dividend on Preference Shares (12% of ₹ 2,00,000, WN 5)	24,000
Dividend (Interim) on Equity Shares (8% of ₹ 6,00,000)	48,000
	42,000

2. Dr.	PROVISION FOR TAX ACCOUNT	Cr.	
Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid) (Balancing Figure)	20,000	By Balance b/d	25,000
To Balance c/d	50,000	By Statement of Profit & Loss (Provision)	45,000
	70,000		70,000

3. Dr.	MACHINERY ACCOUNT	Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	3,00,000	By Bank A/c (Sale) (₹ 30,000 + ₹ 6,000)	36,000
To Gain (Profit) on Sale of Machinery A/c (Statement of Profit & Loss)	6,000	By Depreciation A/c	70,000
To Bank A/c (Purchase) (Bal. Fig.)	3,00,000	By Balance c/d	5,00,000
	6,06,000		6,06,000

4. Dr.	NON-CURRENT INVESTMENTS ACCOUNT	Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	1,40,000	By Bank A/c (Sale)	72,000
To Gain (Profit) on Sale of Investment A/c (Statement of Profit & Loss)	12,000	(₹ 60,000 + 20% of ₹ 60,000)	
To Bank A/c (Purchase) (Bal. Fig.)	1,20,000	By Balance c/d	2,00,000
	2,72,000		2,72,000

5. Preference Shareholders get a preferential right as to payment of dividend. In the given question, company declared and paid dividend on Equity Shares. So, it is implied that dividend was first paid to the preference shareholders and then to equity shareholders.

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Illustration 13. From the following Balance Sheet of ABC Ltd., prepare the Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		35,000	30,000
(b) Reserves and Surplus	1	22,000	5,500
2. Non-Current Liabilities			
<i>Long-term Borrowings:</i>			
10% Debentures		25,000	15,000
3. Current Liabilities			
(a) Short-term Borrowings—Cash Credit		5,000	4,000
(b) Trade Payables	2	12,500	8,500
Total		99,500	63,000
II. ASSETS			
1. Non-Current Assets			
<i>(a) Property, Plant and Equipment and Intangible Assets:</i>			
—Property, Plant and Equipment	3	41,000	32,000
(b) Non-current Investments: 10% Investments		8,000	3,000
2. Current Assets			
(a) Inventories		10,500	8,000
(b) Trade Receivables		19,000	8,000
(c) Cash and Cash Equivalents		21,000	12,000
Total		99,500	63,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
General Reserve	15,000	10,000
Surplus, i.e., Balance in Statement of Profit & Loss	7,000	(4,500)
	22,000	5,500
2. Trade Payables		
Sundry Creditors	11,000	7,500
Bills Payable	1,500	1,000
	12,500	8,500
3. Property, Plant and Equipment		
Machinery (Cost)	54,000	41,000
Less: Provision for Depreciation	13,000	9,000
	41,000	32,000

Additional Information:

- Investments costing ₹ 3,000 were sold for ₹ 2,800 during the year.
- A new machine was purchased for ₹ 13,000.

Solution:

CASH FLOW STATEMENT
for the year ended 31st March, 2026

Particulars	₹
(A) Cash Flow from Operating Activities	
Closing Balance as per Surplus, i.e., Balance in Statement of Profit & Loss	7,000
<i>Add:</i> Opening Debit Balance (Loss) as per Surplus, i.e., Balance in Statement of Profit & Loss	4,500
Transfer to General Reserve	5,000
Net Profit before Tax and Extraordinary Items	16,500
<i>Add: Non-cash and Non-operating Expenses:</i>	
Depreciation	4,000
Loss on Sale of 10% Investments	200
Interest on Debentures	1,500
	5,700
	22,200
<i>Less: Non-operating Income:</i>	
Interest on 10% Investments	300
Operating Profit before Working Capital Changes	21,900
<i>Add: Increase in Current Liabilities:</i>	
Sundry Creditors	3,500
Bills Payable	500
	4,000
<i>Less: Increase in Current Assets:</i>	
Inventories	2,500
Trade Receivables	11,000
	13,500
Cash Flow from Operating Activities	12,400
(B) Cash Flow from Investing Activities	
Purchase of Machinery	(13,000)
Purchase of Investments (WN 3)	(8,000)
Proceeds from Sale of Investments	2,800
Interest on 10% Investments	300
Cash Used in Investing Activities	(17,900)
(C) Cash Flow from Financing Activities	
Proceeds from Issue of Equity Share Capital	5,000
Proceeds from Long-term Borrowings (10% Debentures)	10,000
Increase in Short-term Borrowings (Cash Credit)	1,000
Interest on Debentures	(1,500)
Cash Flow from Financing Activities	14,500
(D) Net Increase in Cash and Cash Equivalents (A + B + C)	9,000
(E) Add: Cash and Cash Equivalents in the beginning of the year	12,000
(F) Cash and Cash Equivalents at the end of the year (D + E)	21,000

Working Notes:

- It is assumed that new debentures have been issued at the end of the current accounting year.
- It is assumed that new investments have been purchased at the end of the current accounting year.

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3. Dr.		10% INVESTMENTS ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	3,000	By Bank A/c	2,800		
To Bank A/c (Purchase) (Balancing Figure)	8,000	By Loss on Sale (Statement of Profit & Loss)	200		
		By Balance c/d	8,000		
	11,000		11,000		

Illustration 14. From the following Balance Sheet of XY Ltd. as on 31st March, 2026, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	8,50,000	4,60,000
(b) Reserves and Surplus	2	1,70,000	2,60,000
2. Non-Current Liabilities			
<i>Long-term Borrowings:</i>			
10% Debentures		1,80,000	1,80,000
3. Current Liabilities			
Short-term Borrowings	3	...	20,000
Total		12,00,000	9,20,000
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
—Property, Plant and Equipment (Machinery)		7,00,000	5,00,000
2. Current Assets			
(a) Inventories		2,50,000	2,10,000
(b) Trade Receivables		1,90,000	1,40,000
(c) Cash and Cash Equivalents		60,000	50,000
(d) Other Current Assets	4	...	20,000
Total		12,00,000	9,20,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	7,50,000	4,00,000
8% Preference Share Capital	1,00,000	60,000
	8,50,000	4,60,000
2. Reserves and Surplus		
Securities Premium	...	20,000
General Reserve	50,000	70,000
Surplus, i.e., Balance in Statement of Profit & Loss	1,20,000	1,70,000
	1,70,000	2,60,000
3. Short-term Borrowings		
Current Maturities of Long-term Debts (10% Debentures)	...	20,000
4. Other Current Assets		
Share Issue Expenses	...	20,000

Additional Information:

- During the year machine costing ₹ 80,000 was sold for ₹ 50,000.
- Dividend paid ₹ 80,000.

(Delhi 2008, Modified)

CASH FLOW STATEMENT
for the year ended 31st March, 2026

Particulars		₹
(A) Cash Flow from Operating Activities		
Net Loss as per Surplus, i.e., Balance in Statement of Profit & Loss (₹ 1,20,000 – ₹ 1,70,000)	(50,000)	
Add: Dividend paid	80,000	
Less: Transfer from Reserve	(20,000)	
Net Profit before Tax and Extraordinary Items	10,000	
Add: Debentures Interest (₹ 2,00,000 × 10/100)	20,000	
Loss on Sale of Machinery	30,000	
Operating Profit before Working Capital Changes		60,000
<i>Adjustment for Working Capital Changes:</i>		
<i>Less: Increase in Current Assets:</i>		
Inventories	40,000	
Trade Receivables	50,000	
		90,000
Cash Used in Operating Activities		(30,000)
(B) Cash Flow from Investing Activities		
Sale of Machinery	50,000	
Purchases of Machinery (WN 2)	(2,80,000)	
Cash Used in Investing Activities		(2,30,000)
(C) Cash Flow from Financing Activities		
Issue of Equity Share Capital	3,50,000	
Issue of Preference Share Capital	40,000	
Redemption of Debentures	(20,000)	
Dividend Paid	(80,000)	
Interest on Debentures Paid	(20,000)	
Cash Flow from Financing Activities		2,70,000
(D) Net Increase in Cash and Cash Equivalents (A + B + C)		10,000
Add: Cash and Cash Equivalents in the beginning of the year		50,000
(E) Cash and Cash Equivalents at the end of the year		60,000

Working Notes:

1. It is assumed that debentures had been redeemed at the end of the year.

2. Dr. Cr.

MACHINERY ACCOUNT			
Particulars	₹	Particulars	₹
To Balance b/d	5,00,000	By Bank A/c (Sale)	50,000
To Bank A/c (Purchases)	2,80,000	By Loss on Sale of Machinery A/c (Statement of Profit & Loss)	30,000
(Balancing Figure)		By Balance c/d	7,00,000
	<u>7,80,000</u>		<u>7,80,000</u>

3. Share Issue Expenses have been adjusted from Securities Premium as per Section 52(2) of the Companies Act, 2013.

4. It is assumed that Dividend paid includes dividend on equity as well as Preference Shares.

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Illustration 15. From the following Balance Sheet of ABC Ltd. as at 31st March, 2026, prepare the Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) <i>Share Capital:</i> Equity Share Capital		35,000	30,000
(b) Reserves and Surplus	1	22,000	15,500
2. Non-Current Liabilities			
<i>Long-term Borrowings:</i>			
10% Debentures		25,000	15,000
3. Current Liabilities:			
(a) Short-term Borrowings—Bank Overdraft		1,000	700
(b) Trade Payables		10,000	6,800
(c) Other Current Liabilities		1,500	1,000
Total		94,500	69,000
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) <i>Property, Plant and Equipment:</i> Machinery		41,000	32,000
(ii) <i>Intangible Assets:</i> Goodwill		8,000	10,000
(b) Non-current Investments (10% Investments)		8,000	3,000
2. Current Assets			
(a) Inventories		5,500	4,000
(b) Trade Receivables		19,000	8,000
(c) Cash and Cash Equivalents		13,000	12,000
Total		94,500	69,000

Note to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
General Reserve	15,000	10,000
Surplus, i.e., Balance in Statement of Profit & Loss	7,000	5,500
	22,000	15,500

Additional Information:

- Investments costing ₹ 3,000 were sold for ₹ 2,800 during the year.
- A new machine was purchased for ₹ 13,000. Depreciation of ₹ 4,000 has been charged on machinery,
- During the year, company purchased its own Debentures for ₹ 4,500 (Face Value ₹ 5,000) and sold them at a gain (profit) of ₹ 300.

Solution:

CASH FLOW STATEMENT
for the year ended 31st March, 2026

Particulars	₹	₹
(A) Cash Flow from Operating Activities		
Closing Balance of Surplus, i.e., Balance in Statement of Profit & Loss		7,000
Less: Opening Balance of Surplus, i.e., Balance in Statement of Profit & Loss		5,500
		1,500
Add: Transfer to General Reserve		5,000
		6,500
Less: Gain (Profit) on Sale of Own Debentures		300
Net Profit before Tax and Extraordinary Items		6,200
<i>Adjustment for Non-Cash and Non-Operating Items:</i>		
Add: Depreciation on Machinery	4,000	
Goodwill amortised	2,000	
Loss on Sale of Investments	200	
Interest on Debentures	1,500	7,700
Less: <i>Non-Operating Income:</i>		
Interest on Investments (₹ 3,000 × 10/100)		(300)
Operating Profit before Working Capital Changes		13,600
Add: <i>Increase in Current Liabilities:</i>		
Trade Payables	3,200	
Other Current Liabilities	500	3,700
	17,300	
Less: <i>Increase in Current Assets:</i>		
Inventories	1,500	
Trade Receivables	11,000	12,500
Cash Flow from Operating Activities		4,800
(B) Cash Flow from Investing Activities		
Purchase of Machinery		(13,000)
Purchase of 10% Investments (WN 3)		(8,000)
Proceeds from Sale of 10% Investments		2,800
Purchase of Own Debentures (as investment)		(4,500)
Proceeds from Sale of Own Debentures		4,800
Interest on Investments		300
Cash Used in Investing Activities		(17,600)
(C) Cash Flow from Financing Activities		
Proceeds from Issue of Share Capital		5,000
Proceeds from Long-term Borrowings (Debentures)		10,000
Increase in Bank Overdraft		300
Interest on Debentures		(1,500)
Cash Flow from Financing Activities		13,800
(D) Net Increase in Cash and Cash Equivalents (A + B + C)		1,000
(E) Add: Cash and Cash Equivalents in the beginning of the year		12,000
(F) Cash and Cash Equivalents at the end of the year (D + E)		13,000

Working Notes:

1. It has been assumed that new debentures have been issued at the end of current accounting year.
2. It has been assumed that new investments have been purchased at the end of the current accounting year.

3. Dr. 10% INVESTMENTS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	3,000	By Bank A/c	2,800
To Bank A/c (Purchase) (Balancing Figure)	8,000	By Loss on Sale of Investments A/c (Statement of Profit & Loss)	200
		By Balance c/d	8,000
	11,000		11,000

4. Dr. MACHINERY ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	32,000	By Depreciation A/c	4,000
To Bank A/c	13,000	By Balance c/d	41,000
	45,000		45,000

Illustration 16. From the following Balance Sheet of X Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 ₹	31st March, 2025 ₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	6,30,000	5,60,000
(b) Reserves and Surplus: Surplus, i.e., Balance in Statement of Profit & Loss		3,08,000	1,82,000
2. Current Liabilities			
(a) Trade Payables		2,64,000	1,66,000
(b) Other Current Liabilities		14,000	28,000
(c) Short-term Provisions (Provision for Tax)		16,000	16,000
Total		12,32,000	9,52,000
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
Property, Plant and Equipment—Plant and Machinery		3,92,000	2,80,000
2. Current Assets			
(a) Inventories		1,26,000	1,82,000
(b) Trade Receivables		6,30,000	4,20,000
(c) Cash and Cash Equivalents		84,000	70,000
Total		12,32,000	9,52,000

Note to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	4,30,000	3,60,000
8% Preference Share Capital	2,00,000	2,00,000
	6,30,000	5,60,000

Additional Information:

1. An old machinery having book value of ₹ 42,000 was sold for ₹ 56,000.
2. Depreciation provided on machinery during the year ₹ 28,000.
3. Interim Dividend paid on equity shares during the current year ₹ 56,000.

Solution:

CASH FLOW STATEMENT
for the year ended 31st March, 2026

Particulars	₹	₹
(A) Cash Flow from Operating Activities		
Closing Balance of Surplus, i.e., Balance in Statement of Profit & Loss	3,08,000	
Less: Opening Balance of Surplus, i.e., Balance in Statement of Profit & Loss	1,82,000	
	1,26,000	
Add: Interim Dividend Paid on Equity Shares during the Current Year	56,000	
Preference Dividend Paid during the year	16,000	
Provision for Tax	16,000	
Net Profit before Tax and Extraordinary Items	2,14,000	
Add: Non-Cash Expense:		
Depreciation	28,000	
	2,42,000	
Less: Gain (Profit) on Sale of Machinery	14,000	
Operating Profit before Working Capital Changes	2,28,000	
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Inventories	56,000	
Trade Payables	98,000	
	1,54,000	
	3,82,000	
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Receivables	2,10,000	
Other Current Liabilities	14,000	
	2,24,000	
Cash Generated from Operations	1,58,000	
Less: Tax Paid	16,000	
Cash Flow from Operating Activities		1,42,000
(B) Cash Flow from Investing Activities		
Proceeds from Sale of Machinery	56,000	
Payment for Purchase of Machinery (WN)	(1,82,000)	
Cash Used in Investing Activities		(1,26,000)
(C) Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares	70,000	
Interim Dividend Paid on Equity Shares	(56,000)	
Preference Dividend Paid	(16,000)	
Cash Used in Financing Activities		(2,000)
(D) Net Increase in Cash and Cash Equivalents (A + B + C)		14,000
Add: Cash and Cash Equivalents in the beginning of the year		70,000
(E) Cash and Cash Equivalents at the end of year		84,000

Working Notes:

1. Dr. PLANT AND MACHINERY ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	2,80,000	By Bank A/c (Sale)	56,000
To Gain (Profit) on Sale of Machinery A/c (Statement of Profit & Loss)	14,000	By Depreciation A/c	28,000
To Bank A/c (Balancing Figure) (Purchase of Machinery)	1,82,000	By Balance c/d	3,92,000
	4,76,000		4,76,000

2. Preference Shareholders get a preferential right as to payment of dividend. In the given question, company declared and paid dividend on Equity Shares. So, it is implied that dividend was first paid to the preference shareholders and then to equity shareholders.

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Illustration 17. From the following information, calculate Cash Flow from Investing Activities of X Ltd.:

Particulars	31st March, 2025 (₹)	31st March, 2026 (₹)
1. Investments @ 10%	2,50,000	5,00,000
2. Plant	8,75,000	11,90,000

Additional Information:

- Half of the investments held in the beginning of the year were sold at 10% gain (profit).
- Depreciation on Plant was ₹ 1,00,000 for the year.
- Interest received on investments—₹ 35,000.
- Dividend received on investments—₹ 15,000.
- Rent received—₹ 10,000.

Solution:

CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
Proceeds from Sale of Investments	1,37,500
Purchase of Investments (WN 1)	(3,75,000)
Purchase of Plant (WN 2)	(4,15,000)
Interest Received	35,000
Dividend Received	15,000
Rent Received	10,000
Cash Used in Investing Activities	(5,92,500)

Working Notes:

1. Dr. INVESTMENTS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d (Opening)	2,50,000	By Bank A/c (Sale)	1,37,500
To Gain on Sale of Investment A/c (Statement of Profit & Loss)	12,500	(₹ 2,50,000 × ½ = ₹ 1,25,000) (Gain 10% of ₹ 1,25,000 = ₹ 12,500)	
To Bank A/c (Purchase of Investments) (Balancing Figure)	3,75,000	By Balance c/d	5,00,000
	6,37,500		6,37,500

2. Dr. PLANT ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d (Opening)	8,75,000	By Depreciation A/c	1,00,000
To Bank A/c (Purchase) (Balancing Figure)	4,15,000	By Balance c/d	11,90,000
	12,90,000		12,90,000

Illustration 18. Statement of Profit & Loss of XYZ Ltd. for the year ended 31st March, 2026 and additional information is given below. Calculate Cash Flow from Operating Activities.

STATEMENT OF PROFIT & LOSS
for the year ended 31st March, 2026

Particulars	Note No.	₹
I. Revenue from Operations (Net Sales)		18,00,000
II. Other Income	1	22,000
III. Total Revenue (I + II)		18,22,000
IV. Expenses:		
(a) Purchases of Stock-in-Trade		14,56,000
(b) Change in Inventories of Stock-in-Trade (Opening Inventories ₹ 80,000 and Closing Inventories ₹ 96,000)		(16,000)
(c) Employees Benefit Expenses		1,80,000
(d) Depreciation and Amortisation Expenses		50,000
(e) Other Expenses	2	1,74,000
Total Expenses		18,44,000
V. Net Loss for the Year (III – IV)		(22,000)

Notes to Accounts

Particulars	₹
1. Other Income	
Rent	15,000
Miscellaneous	7,000
	22,000
2. Other Expenses	
Manufacturing Expenses	30,000
Insurance	9,000
Administration Expenses	47,000
Selling and Distribution Expenses	58,000
Loss on Sale of Assets	30,000
	1,74,000

Additional Information:

	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Wages Payable	10,000	...
2. Salaries Payable	25,000	...
3. Prepaid Insurance	3,000	...
4. Accrued Commission	7,000	...

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Solution:

CASH FLOW FROM OPERATING ACTIVITIES

Particulars		₹
Net Loss as per Statement of Profit & Loss		(22,000)
<i>Adjustments for Non-Cash and Non-Operating Items:</i>		
Add: Depreciation and Amortisation Expenses	50,000	
Loss on Sale of Assets	30,000	80,000
		58,000
Less: <i>Non-Operating Income:</i> Other Incomes (Rent and Miscellaneous)		22,000
Operating Profit before Working Capital Changes		36,000
<i>Add: Increase in Current Liabilities:</i>		
Wages Payable	10,000	
Salaries Payable	25,000	35,000
		71,000
<i>Less: Increase in Current Assets:</i>		
Inventories (₹ 96,000 – ₹ 80,000)	16,000	
Accrued Commission	7,000	
Prepaid Insurance	3,000	26,000
Cash Flow from Operating Activities		45,000

Illustration 19. From the following Balance Sheet and information, prepare Cash Flow Statement:

BALANCE SHEET as at 31st March, 2026

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		8,00,000	5,00,000
(b) Reserves and Surplus:			
Surplus, i.e., Balance in Statement of Profit & Loss		3,50,000	2,00,000
2. Non-Current Liabilities			
Long-term Borrowings: 6% Debentures		1,00,000	1,00,000
3. Current Liabilities			
(a) Short-term Borrowings: Bank Loan		50,000	...
(b) Trade Payables	1	75,000	1,00,000
(c) Short-term Provisions: Provision for Tax		65,000	50,000
Total		14,40,000	9,50,000
II. ASSETS			
1. Non-Current Assets			
(a) <i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) Property, Plant and Equipment	2	5,20,000	7,00,000
(ii) Intangible Assets: Goodwill		50,000	1,00,000
(b) Non-current Investments		2,70,000	...
2. Current Assets			
(a) Current Investments	3	90,000	...
(b) Inventories		50,000	60,000
(c) Trade Receivables		80,000	40,000
(d) Cash and Cash Equivalents: Cash and Bank Balance		3,80,000	50,000
Total		14,40,000	9,50,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Trade Payables		
Creditors	55,000	50,000
Bills Payable	20,000	50,000
	75,000	1,00,000
2. Property, Plant and Equipment		
Building	2,50,000	4,00,000
Plant and Machinery	2,70,000	3,00,000
	5,20,000	7,00,000
3. Current Investments		
Investment in Securities (Other than Marketable Securities)	90,000	...

Additional Information:

1. ₹ 50,000 as Interim Dividend was paid during the year.
2. Building is sold at book value.

Solution:

CASH FLOW STATEMENT for the year ended 31st March, 2026

Particulars		₹
(A) Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items (WN)	2,65,000	
<i>Add:</i> Non-Cash Items and Non-operating Items:		
Goodwill amortised (₹ 1,00,000 – ₹ 50,000)	50,000	
Depreciation on Plant and Machinery (₹ 3,00,000 – ₹ 2,70,000)	30,000	
Interest on Debentures	6,000	
Operating Profit before Working Capital Changes	3,51,000	
<i>Add:</i> Decrease in Current Assets and Increase in Current Liabilities:		
Creditors (Trade Payables)	5,000	
Inventories	10,000	
	3,66,000	
<i>Less:</i> Increase in Current Assets and Decrease in Current Liabilities:		
Trade Receivables	40,000	
Bills Payable (Trade Payables)	30,000	70,000
Cash Generated from Operating Activities	2,96,000	
<i>Less:</i> Tax Paid	50,000	
Cash Flow from Operating Activities		2,46,000
(B) Cash Flow from Investing Activities		
Proceeds from Sale of Building	1,50,000	
Purchase of Non-Current Investments	(2,70,000)	
Purchase of Securities	(90,000)	
Cash Used in Investing Activities		(2,10,000)
(C) Cash Flow from Financing Activities		
Proceeds from Issue of Shares	3,00,000	
Payment of Interest on Debentures	(6,000)	
Payment of Interim Dividend	(50,000)	
Proceeds from raising of Bank Loan	50,000	
Cash Flow from Financing Activities		2,94,000
(D) Net Increase In Cash and Cash Equivalents (A + B + C)		3,30,000
<i>Add:</i> Cash and Cash Equivalents in the beginning of the year		50,000
(E) Cash and Cash Equivalents at the end of the year		3,80,000

Working Note:

	₹
Balance—Statement of Profit & Loss as on 31st March, 2026	3,50,000
Less: Balance—Statement of Profit & Loss as on 31st March, 2025	<u>2,00,000</u>
	1,50,000
Add: Appropriations:	
Interim Dividend Paid	50,000
Provision for Tax (Current Year)	<u>65,000</u>
Net Profit before Tax and Extraordinary Items	<u>2,65,000</u>

Illustration 20. From the following Balance Sheet of A Ltd., prepare Cash Flow Statement as per AS-3 (Revised), as at 31st March, 2026:

BALANCE SHEET as at 31st March, 2026

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) <i>Share Capital:</i> Equity Share Capital		2,00,000	2,00,000
(b) <i>Reserves and Surplus:</i> Surplus, i.e., Balance in Statement of Profit & Loss		90,000	50,000
2. Current Liabilities			
(a) <i>Short-term Borrowings:</i> Cash Credit		...	10,000
(b) Trade Payables		20,000	15,000
(c) Other Current Liabilities		5,000	5,000
(d) <i>Short-term Provisions:</i> Provision for Tax		25,000	20,000
Total		<u>3,40,000</u>	<u>3,00,000</u>
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i> —Property, Plant and Equipment		2,75,000	2,35,000
2. Current Assets			
(a) Inventories		15,000	25,000
(b) Trade Receivables		20,000	10,000
(c) Cash and Cash Equivalents		30,000	30,000
Total		<u>3,40,000</u>	<u>3,00,000</u>

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Other Current Liabilities		
Outstanding Expenses	1,000	5,000
Unclaimed Dividend	4,000	...
	<u>5,000</u>	<u>5,000</u>
2. Cash and Cash Equivalents		
Cash	10,000	8,000
Bank	20,000	22,000
	<u>30,000</u>	<u>30,000</u>

Additional Information:

Net Profit for the year after providing ₹ 20,000 for depreciation was ₹ 60,000. During the year, the company declared the interim dividend @ 10% and paid ₹ 15,000 as income tax.

Solution:

CASH FLOW STATEMENT for the year ended 31st March, 2026

Particulars		₹
(A) Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items (WN 1)	80,000	
Add: Non-Cash Item: Depreciation	20,000	
Operating Profit before Working Capital Changes		1,00,000
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Trade Payables	5,000	
Inventories	10,000	15,000
		1,15,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Receivables	10,000	
Outstanding Expenses	4,000	14,000
Cash Generated from Operations		1,01,000
Less: Tax Paid (Given)		15,000
Cash Flow from Operating Activities		86,000
(B) Cash Flow from Investing Activities		
Purchase of Property, Plant and Equipment (WN 2)	(60,000)	
Cash Used in Investing Activities		(60,000)
(C) Cash Flow from Financing Activities		
Decrease in Cash Credit	(10,000)	
Payment of Dividend [₹ 20,000 – ₹ 4,000 (Unclaimed)]	(16,000)	
Cash Used in Financing Activities		(26,000)
(D) Net Increase in Cash and Cash Equivalents (A + B + C)		Nil
Add: Opening Balance of Cash and Cash Equivalents		30,000
(E) Closing Balance of Cash and Cash Equivalents		30,000

Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary Items:	₹
Surplus, i.e., Balance in Statement of Profit & Loss as on 31st March, 2026	90,000
Less: Surplus, i.e., Balance in Statement of Profit & Loss as on 31st March, 2025	50,000
	40,000
Add: Appropriations:	
Interim Dividend	20,000
Provision for Tax	20,000
Net Profit before Tax and Extraordinary Items	80,000

2. Dr.	PROPERTY, PLANT AND EQUIPMENT ACCOUNT	Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	2,35,000	By Depreciation A/c	20,000
To Cash A/c (Balancing Figure) (Fixed Asset Purchased)	60,000	By Balance c/d	2,75,000
	2,95,000		2,95,000

5.38

Illustration 21. Following is the Balance Sheet of Sreshtha Ltd. as on 31st March, 2026:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		20,00,000	15,00,000
(b) Reserves and Surplus	1	5,00,000	3,00,000
2. Non-Current Liabilities			
Long-term Borrowings		3,00,000	2,00,000
3. Current Liabilities			
(a) Trade Payables		1,50,000	2,00,000
(b) Short-term Provisions	2	70,000	60,000
Total		30,20,000	22,60,000
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) Property, Plant and Equipment	3	19,00,000	15,00,000
(ii) Intangible Assets	4	4,70,000	2,70,000
2. Current Assets			
(a) Inventories		2,50,000	1,60,000
(b) Trade Receivables		2,10,000	2,10,000
(c) Cash and Cash Equivalents		1,90,000	1,20,000
Total		30,20,000	22,60,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
Surplus, i.e., Balance in Statement of Profit & Loss	5,00,000	3,00,000
2. Short-term Provisions		
Provision for Tax	70,000	60,000
3. Property, Plant and Equipment		
Machinery	27,00,000	21,00,000
Less: Accumulated Depreciation	(8,00,000)	(6,00,000)
	19,00,000	15,00,000
4. Intangible Assets		
Goodwill	4,70,000	2,70,000

Prepare a Cash Flow Statement after taking into account the following adjustment:

During the year, a piece of machinery costing ₹ 30,000 on which accumulated depreciation was ₹ 6,000, was sold for ₹ 20,000.
(Delhi 2015 C, Modified)

CASH FLOW STATEMENT
for the year ended 31st March, 2026

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net profit before Tax and Extraordinary Items (WN 1)	2,70,000	
<i>Add: Non Operating/Non-cash Expenses:</i>		
Depreciation on Machinery (WN 3)	2,06,000	
Loss on sale of Machinery	4,000	
Operating Profit before Working Capital changes	4,80,000	
<i>Less: Increase in Current Assets and Decrease in Current Liabilities:</i>		
Inventories	90,000	
Trade Payables	50,000	
<i>Cash Generated from Operations</i>	3,40,000	
<i>Less: Income Tax Paid</i>	60,000	2,80,000
Cash Flow from Operating Activities		2,80,000
II. Cash Flow from Investing Activities		
Purchase of Machinery (WN 2)	(6,30,000)	
Proceeds from Sale of Machinery	20,000	
Goodwill Purchased	(2,00,000)	(8,10,000)
Cash Used in Investing Activities		(8,10,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	5,00,000	
Proceeds from Long-term Borrowings	1,00,000	6,00,000
Cash Flow from Financing Activities		6,00,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		70,000
<i>Add: Opening Balance of Cash and Cash Equivalents</i>		1,20,000
V. Closing Balance of Cash and Cash Equivalents		1,90,000

Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary Items:	₹
Surplus, i.e., Balance in Statement of Profit & Loss (₹ 5,00,000 – ₹ 3,00,000)	2,00,000
<i>Add: Provision for Tax</i>	70,000
Net Profit before Tax and Extraordinary Items	2,70,000

2. Dr.	MACHINERY ACCOUNT	Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	21,00,000	By Bank A/c (Sale)	20,000
To Bank A/c (Balancing Figure) (Purchase)	6,30,000	By Accumulated Depreciation A/c	6,000
		By Loss on Sale of Machinery A/c (Statement of Profit & Loss)	4,000
		By Balance c/d	27,00,000
	<u>27,30,000</u>		<u>27,30,000</u>

5.40

3. Dr. ACCUMULATED DEPRECIATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	6,000	By Balance b/d	6,00,000
To Balance c/d (Given)	8,00,000	By Depreciation A/c (Balancing Figure) (Statement of Profit & Loss)	2,06,000
	8,06,000		8,06,000

UNSOLVED QUESTIONS

1. From the following information, calculate Net Profit before Tax and Extraordinary Items:

	₹
Surplus, i.e., Balance in Statement of Profit & Loss (Opening)	(2,00,000)
Surplus, i.e., Balance in Statement of Profit & Loss (Closing)	6,72,000
Dividend Paid in the current year	1,44,000
Interim Dividend Paid during the year	1,80,000
Transfer to Reserve	2,00,000
Provision for Tax for the current year	3,00,000
Refund of Tax	6,000
Loss due to Earthquake	4,00,000
Insurance Claim Received from Earthquake disaster settlement	2,00,000

[Ans.: Net Profit before Tax and Extraordinary Items: ₹ 18,90,000.]

2. Calculate Cash Flow from Operating Activities from the following information:

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
Surplus, i.e., Balance in Statement of Profit & Loss	3,10,000	3,40,000
Trade Receivables	1,50,000	1,70,000
Outstanding Rent	48,000	72,000
Goodwill	80,000	70,000
Prepaid Insurance	20,000	10,000
Trade Payables	1,20,000	1,60,000

[Ans.: Cash Used in Operating Activities = ₹ 84,000.]

3. Calculate Cash Flow from Operating Activities from the following information:

	₹
Net profit for the year ended 31st March, 2026	15,00,000
Annual Depreciation	6,00,000
Gain (Profit) on sale of furniture which was transferred to Statement of Profit & Loss	1,50,000
Trade Receivables (Increase in Debtors)	1,20,000
Trade Payables (Increase in Creditors)	1,80,000

[Ans.: ₹ 20,10,000.]

4. Compute Cash Flow from Operating Activities from the following:

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
Surplus, <i>i.e.</i> , Balance in Statement of Profit & Loss	80,000	40,000
<i>Trade Receivables:</i>		
Bills Receivable	8,000	5,000
Debtors	12,000	10,000
Inventories (Stock)	4,000	7,000
Prepaid Expenses	...	500
<i>Trade Payables:</i>		
Creditors	6,000	4,000
Bills Payable	...	1,000
Outstanding Expenses	3,000	2,000

[Ans.: Cash Flow from Operating Activities = ₹ 40,500.]

5. From the following you are required to calculate Cash Flow from Operating Activities:

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
Surplus, <i>i.e.</i> , Balance in Statement of Profit & Loss	65,000	60,000
<i>Trade Receivables:</i>		
Debtors	40,000	87,000
Bills Receivable	1,03,000	62,000
General Reserve	2,37,000	2,02,000
Dividend Equalisation Reserve	1,00,000	78,000
Salary Outstanding	12,000	30,000
Wages Prepaid	7,000	5,000
Goodwill	70,000	80,000

[Ans.: Cash Flow from Operating Activities = ₹ 58,000.]

6. Calculate Cash Flow from Operating Activities from the following:

Case (a)

BALANCE SHEET (An Extract)

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
<i>Reserves and Surplus:</i> Surplus, <i>i.e.</i> , Balance in Statement of Profit & Loss	6,00,000	2,00,000
II. ASSETS		
Non-Current Assets		
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment	12,00,000	10,00,000
<i>Less:</i> Accumulated Depreciation	(2,50,000)	(2,00,000)
	9,50,000	8,00,000

Case (b) BALANCE SHEET (An Extract)

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
<i>Reserves and Surplus: Surplus, i.e., Balance in Statement of Profit & Loss</i>	6,00,000	2,00,000
II. ASSETS		
Non-Current Assets		
<i>Property, Plant and Equipment and Intangible Assets—Intangible Assets</i>		
Goodwill	90,000	1,00,000

Case (c) BALANCE SHEET (An Extract)

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
<i>Reserves and Surplus</i>	6,00,000	2,00,000
2. Current Liabilities		
<i>Short-term Provisions:</i>		
Provision for Tax	1,50,000	1,00,000

Case (d) BALANCE SHEET (An Extract)

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
<i>Reserves and Surplus:</i>		
General Reserve	3,20,000	3,00,000
<i>Surplus, i.e., Balance in Statement of Profit & Loss</i>	6,00,000	2,00,000
	9,20,000	5,00,000

Case (e) BALANCE SHEET (An Extract)

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
<i>Reserves and Surplus:</i>		
<i>Surplus, i.e., Balance in Statement of Profit & Loss</i>	6,00,000	2,00,000
II. ASSETS		
Plant and Machinery	4,00,000	4,00,000
<i>Less: Accumulated Depreciation</i>	(1,50,000)	(1,00,000)
	2,50,000	3,00,000

Additional Information: During the year, a part of machinery costing ₹ 50,000 (accumulated depreciation thereon ₹ 40,000) was sold for ₹ 5,000.

[Ans.: (a) ₹ 4,50,000; (b) ₹ 4,10,000; (c) ₹ 4,50,000; (d) ₹ 4,20,000; (e) ₹ 4,95,000.]

7. Compute Cash Flow from Operating Activities of M/s Progressive Sales from the following details:

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
Inventories	50,000	60,000
Trade Receivables	23,000	25,000
Trade Payables	50,000	67,000
Expenses Outstanding	4,500	3,500
Accrued Income	9,000	8,000
Surplus, i.e., Balance in Statement of Profit & Loss	90,000	80,000

[Ans.: ₹ 5,000.]

8. Compute Cash Flow from Operating Activities from the following:

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
Surplus, i.e., Balance in Statement of Profit & Loss	30,000	20,000
Trade Receivables	18,000	16,000
Provision for Depreciation	30,000	28,000
Prepaid Insurance	1,500	1,300
Goodwill	16,000	20,000
Inventories	12,000	9,000

[Ans.: ₹ 10,800.]

9. Following is the Balance Sheet of Good Luck Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		4,00,000	3,00,000
(b) Reserves and Surplus	1	58,000	50,000
2. Non-Current Liabilities			
Long-term Borrowings (Mortgage Loan)		1,40,000	1,40,000
3. Current Liabilities			
(a) Short-term Borrowings	2	...	30,000
(b) Trade Payables		1,48,000	1,25,000
Total		7,46,000	6,45,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets	3	3,41,000	2,32,000
2. Current Assets			
(a) Inventories		2,80,000	2,00,000
(b) Trade Receivables		1,07,000	1,30,000
(c) Cash and Cash Equivalents	4	18,000	80,000
(d) Other Current Assets: Prepaid Expenses		...	3,000
Total		7,46,000	6,45,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
Surplus, i.e., Balance in Statement of Profit & Loss	58,000	50,000
2. Short-term Borrowings		
Current Maturities of Long-term Debts (Mortgage Loan)	...	30,000
3. Property, Plant and Equipment and Intangible Assets		
Property, Plant and Equipment	2,96,000	1,72,000
Intangible: Goodwill	45,000	60,000
	3,41,000	2,32,000
4. Cash and Cash Equivalents		
Cash-in-Hand	16,000	50,000
Cash at Bank	2,000	30,000
	18,000	80,000

[Ans.: Cash Used in Operating Activities = ₹ 8,000; Cash Used in Investing Activities = ₹ 1,24,000;
Cash Flow from Financing Activities = ₹ 70,000;
Net Decrease in Cash and Cash Equivalents = ₹ 62,000.]

[Hint: No interest on mortgage loan is calculated because the rate of interest is not given.]

10. From the following Balance Sheet of Varun Ltd. as at 31st March, 2026, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 ₹	31st March, 2025 ₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		1,50,000	1,25,000
(b) Reserves and Surplus	1	75,000	60,000
2. Non-Current Liabilities			
Long-term Borrowings : Bank Loan		20,000	...
3. Current Liabilities			
(a) Short-term Borrowings: Bank Overdraft		10,000	5,000
(b) Trade Payables	2	70,000	65,000
(c) Short-term Provisions	3	25,000	15,000
Total		3,50,000	2,70,000
II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets: —Property, Plant and Equipment		30,000	20,000
(b) Non-current Investments		10,000	15,000
2. Current Assets			
(a) Inventories (Stock)		1,20,000	87,000
(b) Trade Receivables (Debtors)		90,000	98,000
(c) Cash and Cash Equivalents		1,00,000	50,000
Total		3,50,000	2,70,000

Notes to Accounts

Particulars	31st March, 2026 ₹	31st March, 2025 ₹
1. Reserves and Surplus		
General Reserve	15,000	10,000
Surplus, i.e., Balance in Statement of Profit & Loss	60,000	50,000
	<u>75,000</u>	<u>60,000</u>
2. Trade Payables		
Creditors	45,000	50,000
Bills Payable	25,000	15,000
	<u>70,000</u>	<u>65,000</u>
3. Short-term Provisions		
Provision for Tax	25,000	15,000
	<u>25,000</u>	<u>15,000</u>

Additional Information:

1. During the year ₹ 5,000 depreciation was charged on fixed assets.
2. Company has paid ₹ 12,000 interim dividend during the year.
3. Tax provided during the year ₹ 20,000.

[Ans.: Cash Flow from Operating Activities = ₹ 22,000; Cash Used in Investing Activities = ₹ 10,000;
Cash Flow from Financing Activities = ₹ 38,000; Net Increase in
Cash and Cash Equivalents = ₹ 50,000.]

11. From the following Balance Sheet of X Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	2,00,000	1,80,000
(b) Reserves and Surplus	2	6,400	6,000
2. Non-Current Liabilities			
<i>Long-term Borrowings:</i>			
10% Debentures		14,000	12,000
3. Current Liabilities			
(a) Short-term Borrowings (Bank Overdraft)		13,600	25,000
(b) Trade Payables (Creditors)		22,000	24,000
(c) Short-term Provisions	3	8,400	6,000
Total		<u>2,64,400</u>	<u>2,53,000</u>
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
Property, Plant and Equipment	4	1,50,000	1,60,000
2. Current Assets			
(a) Inventories		59,400	50,600
(b) Trade Receivables		48,000	40,000
(c) Cash and Cash Equivalents		7,000	2,400
Total		<u>2,64,400</u>	<u>2,53,000</u>

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	1,80,000	1,55,000
12% Preference Share Capital	20,000	25,000
	2,00,000	1,80,000
2. Reserves and Surplus		
General Reserve	4,000	4,000
Surplus, i.e., Balance in Statement of Profit & Loss	2,400	2,000
	6,400	6,000
3. Short-term Provisions		
Provision for Tax	8,400	6,000
4. Property, Plant and Equipment		
Cost of Machinery	1,80,000	1,82,000
Less: Accumulated Depreciation	30,000	22,000
	1,50,000	1,60,000

Additional Information:

- Machinery sold for ₹ 10,000, their cost ₹ 20,000 and accumulated depreciation till date of sale of them ₹ 6,000.
- Interim Dividend during the year ₹ 9,000.
- Tax paid ₹ 7,000.
- Proposed dividend for the years ended 31st March, 2025 and 2026 were ₹ 10,000 and ₹ 11,600 respectively.

[Ans.: Cash Flow from Operating Activities = ₹ 22,200; Cash Used in Investing Activities = ₹ 8,000; Cash Used in Financing Activities = ₹ 9,600; Net Increase in Cash and Cash Equivalents = ₹ 4,600.]

- [Hints: 1. It has been assumed that the new debentures have been issued at the end of the Current Accounting Year.
2. Proposed Dividend includes dividend on Equity as well as Preference Shares.]

12. From the following summarised Balance Sheets of Add Gel Pens Ltd. as at 31st March, 2026 and 31st March, 2025 and the additional information, prepare Cash Flow Statement:

BALANCE SHEETS

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	3,00,000	2,00,000
(b) Reserves and Surplus	2	1,60,000	80,000
2. Non-Current Liabilities			
Long-term Borrowings	3	50,000	50,000
3. Current Liabilities			
(a) Short-term Borrowings	4	30,000	1,75,000
(b) Trade Payables		50,000	40,000
(c) Short-term Provisions	5	80,000	60,000
Total		6,70,000	6,05,000

II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
Property, Plant and Equipment (Machinery)		4,00,000	4,10,000
2. Current Assets			
(a) Current Investments		10,000	10,000
(b) Inventories		89,000	75,000
(c) Trade Receivables		1,50,000	1,00,000
(d) Cash and Cash Equivalents	6	21,000	10,000
Total		6,70,000	6,05,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	1,50,000	1,00,000
8% Preference Share Capital	1,50,000	1,00,000
	3,00,000	2,00,000
2. Reserves and Surplus		
General Reserve	70,000	30,000
Surplus, i.e., Balance in Statement of Profit & Loss	90,000	50,000
	1,60,000	80,000
3. Long-term Borrowings		
15% Debentures
Loan from Bank	50,000	50,000
	50,000	50,000
4. Short-term Borrowings		
<i>Current Maturities of Long-term Debts:</i>		
(i) 15% Debentures	...	80,000
(ii) Loan from Bank	...	50,000
Bank Overdraft	30,000	45,000
	30,000	1,75,000
5. Short-term Provisions		
Provision for Tax	80,000	60,000
6. Cash and Cash Equivalents		
Cash in Hand	11,000	5,000
Cash at Bank	10,000	5,000
	21,000	10,000

Additional Information:

1. Depreciation charged on Machinery ₹ 10,000.
2. Interest paid on Loan from Bank ₹ 5,000.
3. Interest paid on Debentures ₹ 9,000.
4. Proposed dividend for the years ended 31st March, 2025 and 2026 were ₹ 10,000 and ₹ 22,500 respectively.

[Ans.: Cash Flow from Operating Activities = ₹ 80,000; Cash Flow from Investing Activities = Nil; Cash Used in Financing Activities = ₹ 69,000; Net Increase in Cash and Cash Equivalents = ₹ 11,000.]

[Hint: Current Investments are taken as Marketable Securities as no information is given. It is taken as Cash and Cash Equivalent.]

13. Balance Sheets of XYZ Ltd. as at 31st March, 2026 and 31st March, 2025 were:

BALANCE SHEETS

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		6,00,000	5,00,000
(b) Reserves and Surplus	1	75,000	50,000
2. Non-Current Liabilities			
<i>Long-term Borrowings:</i>			
8% Debentures		1,10,000	1,10,000
3. Current Liabilities			
(a) Short-term Borrowings	2	1,00,000	1,70,000
(b) Trade Payables		75,000	80,000
(c) Short-term Provisions	3	25,000	20,000
Total		9,85,000	9,30,000
II. ASSETS			
1. Non-Current Assets			
<i>(a) Property, Plant and Equipment and Intangible Assets:</i>			
<i>(i) Property, Plant and Equipment:</i>			
Land and Building		5,50,000	5,50,000
<i>(ii) Intangible Assets:</i>			
Goodwill		75,000	1,00,000
(b) Non-current Investment		2,00,000	1,50,000
2. Current Assets			
(a) Inventories		65,000	50,000
(b) Trade Receivables		90,000	68,000
(c) Cash and Cash Equivalents		5,000	12,000
Total		9,85,000	9,30,000

Notes to Accounts

Particulars		31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus			
Securities Premium		50,000	50,000
Surplus, i.e., Balance in Statement of Profit & Loss		25,000	...
		75,000	50,000
2. Short-term Borrowings			
Current Maturities of Long-term Debts (8% Debentures)			
Bank Overdraft		...	90,000
		1,00,000	80,000
		1,00,000	1,70,000
3. Short-term Provisions			
Provision for Tax		25,000	20,000

Additional Information:

- Net Profit for the year before Tax and dividend amounted to ₹ 63,000.
 - Provision for Tax made during the year 2025–26 was ₹ 23,000.
 - Depreciation provided on Land and Building for the year 2025–26 ₹ 80,000.
 - Debentures amounted to ₹ 90,000 were redeemed on 1st July, 2025.
 - Proposed dividend for the years ended 31st March, 2025 and 2026 were ₹ 10,000 and ₹ 15,000 respectively.
- You are required to prepare Cash Flow Statement as per Accounting Standard-3 (Revised).

[Ans.: Cash Flow from Operating Activities = ₹ 1,13,600; Cash Used in Investing Activities = ₹ 1,30,000; Cash Flow from Financing Activities = ₹ 9,400; Net Decrease in Cash and Cash Equivalents = ₹ 7,000.]

[Hint: Interest on Debentures = on ₹ 2,00,000 for 3 months + on ₹ 1,10,000 for 9 months = ₹ 10,600.]

14. From the following summarised Balance Sheets of KBC Ltd. as at 31st March, 2026 and 31st March, 2025, you are required to prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		3,50,000	3,00,000
(b) Reserves and Surplus	1	2,30,000	1,50,000
2. Non-Current Liabilities			
Long-term Borrowings: 15% Debentures		1,00,000	1,50,000
3. Current Liabilities			
(a) Trade Payables		1,25,000	80,000
(b) Short-term Provisions	2	38,000	35,000
(c) Other Current Liabilities: Outstanding Expenses		6,000	5,000
Total		8,49,000	7,20,000
II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment	3	4,75,000	4,00,000
(b) Long-term Investments (At Cost)		90,000	90,000
2. Current Assets			
(a) Inventories		1,18,000	85,000
(b) Trade Receivables		1,22,500	1,12,500
(c) Cash and Cash Equivalents:			
Cash in Hand		43,500	32,500
Total		8,49,000	7,20,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
Capital Reserve (Profit on Sale of Investment)	5,000	...
Surplus, i.e., Balance in Statement of Profit & Loss	2,25,000	1,50,000
	2,30,000	1,50,000
2. Short-term Provisions		
Provision for Tax	38,000	35,000
3. Property, Plant and Equipment		
Cost of Plant and Machinery	6,00,000	5,00,000
Less: Accumulated Depreciation	1,25,000	1,00,000
	4,75,000	4,00,000

Additional Information:

- During the year ended 31st March, 2026, a part of Plant with a net Book Value of ₹ 5,000 (accumulated depreciation ₹ 15,000) was sold for ₹ 4,000.
- During the year ended 31st March, 2026, investment costing ₹ 40,000 was sold.
- Debentures were redeemed at a premium of 10%.
- Tax of ₹ 37,500 was paid.
- Debenture interest paid during the year ended 31st March, 2026 was ₹ 15,000.
- Proposed dividend for the years ended 31st March, 2025 and 2026 were ₹ 15,000 and ₹ 17,000 respectively.

[Ans.: Cash Flow from Operating Activities = ₹ 1,57,000; Cash Used in Investing Activities = ₹ 1,11,000; Cash Used in Financing Activities = ₹ 35,000; Net Increase in Cash and Cash Equivalents = ₹ 11,000.]

[Hints:

1. Dr. PLANT AND MACHINERY ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	5,00,000	By Bank A/c (Sale)	4,000
To Bank A/c (Purchase) (Bal. Fig.)	1,20,000	By Accumulated Depreciation A/c	15,000
		By Loss on Sale (Statement of Profit & Loss)	1,000
		By Balance c/d	6,00,000
	6,20,000		6,20,000

2. Dr. ACCUMULATED DEPRECIATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Fixed Assets A/c (Transfer)	15,000	By Balance b/d	1,00,000
To Balance c/d	1,25,000	By Depreciation A/c (Depreciation Provided) (Bal. Fig.)	40,000
	1,40,000		1,40,000

3. Dr. PROVISION FOR TAX ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid)	37,500	By Balance b/d	35,000
To Balance c/d	38,000	By Statement of Profit & Loss (Provision Made) (Bal. Fig.)	40,500
	75,500		75,500

4. Dr. INVESTMENT ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	90,000	By Bank A/c (Sale) (₹ 40,000 + ₹ 5,000 profit)	45,000
To Capital Reserve A/c	5,000	By Balance c/d	90,000
To Bank A/c—Purchase (Bal. Fig.)	40,000		
	1,35,000		1,35,000

15. Calculate Net Profit before Tax and Extraordinary Items from the following Balance Sheets of AB Trades Ltd. as at 31st March, 2026 and 2025:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		10,00,000	8,00,000
(b) Reserves and Surplus	1	4,00,000	2,50,000
2. Current Liabilities			
(a) Short-term Borrowings		50,000	60,000
(b) Trade Payables		50,000	80,000
(c) Other Current Liabilities		25,000	15,000
(d) Short-term Provisions	2	80,000	40,000
Total		16,05,000	12,45,000
II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets: —Property, Plant and Equipment		10,00,000	8,00,000
(b) Non-Current Investments		3,00,000	2,00,000
2. Current Assets			
Total		16,05,000	12,45,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
(a) General Reserve	1,20,000	80,000
(b) Surplus, i.e., Balance In Statement of Profit & Loss	2,80,000	1,70,000
	4,00,000	2,50,000
2. Short-term Provisions		
Provision for Tax	80,000	40,000

Additional Information: Proposed dividend for the years ended 31st March, 2025 and 2026 were ₹ 80,000 and ₹ 1,00,000 respectively. [Ans.: ₹ 3,30,000.]

16. From the following Balance Sheets of Vivek Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	2,90,000	2,50,000
(b) Reserves and Surplus	2	72,000	50,000
2. Current Liabilities			
Trade Payables		5,000	23,000
Total		3,67,000	3,23,000
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
(a) Property, Plant and Equipment	3	1,50,000	1,40,000
(b) Intangible (Goodwill)		20,000	30,000
2. Current Assets			
(a) Inventories		20,000	18,000
(b) Trade Receivables		1,60,000	1,20,000
(c) Cash and Cash Equivalents		17,000	15,000
Total		3,67,000	3,23,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	2,50,000	2,00,000
12% Preference Share Capital	40,000	50,000
	2,90,000	2,50,000
2. Reserves and Surplus		
General Reserve	55,000	35,000
Surplus, i.e., Balance in Statement of Profit & Loss	17,000	15,000
	72,000	50,000
3. Property, Plant and Equipment		
Building	80,000	1,00,000
Plant	70,000	40,000
	1,50,000	1,40,000

Additional Information: Depreciation charged on Plant was ₹ 30,000 and on Building ₹ 50,000.

[Ans.: Cash Flow from Operating Activities = ₹ 52,000; Cash Used in Investing Activities = ₹ 90,000; Cash Flow from Financing Activities = ₹ 40,000; Net increase in Cash and Cash Equivalents = ₹ 2,000.]

17. Balance Sheet of A Ltd. as at 31st March, 2026 was as follows:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		8,40,000	6,00,000
(b) Reserves and Surplus		2,46,000	1,20,000
2. Non-Current Liabilities			
Long-term Borrowings	1	1,50,000	1,50,000
3. Current Liabilities			
(a) Short-term Borrowings	2	75,000	90,000
(b) Trade Payables		2,49,000	1,50,000
(c) Short-term Provisions	3	60,000	45,000
Total		16,20,000	11,55,000
II. ASSETS			
1. Non-Current Assets			
(a) <i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) Property, Plant and Equipment (Net)	4	3,90,000	4,80,000
(ii) Intangible Assets	5	30,000	60,000
(b) Non-current Investments		7,50,000	3,75,000
2. Current Assets			
(a) Current Investments	6	90,000	60,000
(b) Inventories		90,000	30,000
(c) Trade Receivables		1,95,000	90,000
(d) Other Current Assets	7	39,000	15,000
(e) Cash and Cash Equivalents		36,000	45,000
Total		16,20,000	11,55,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Long-term Borrowings		
12% Loan	1,50,000	1,50,000
2. Short-term Borrowings		
Bank Overdraft	75,000	90,000
3. Short-term Provisions		
Provision for Tax	60,000	45,000
4. Property, Plant and Equipment		
Plant and Machinery	5,40,000	6,00,000
Less: Provision for Depreciation	1,50,000	1,20,000
	3,90,000	4,80,000
5. Intangible Assets		
Trademarks	30,000	60,000
6. Current Investments		
Short-term Investments	90,000	60,000
7. Other Current Assets		
Prepaid Expenses	39,000	15,000

Additional Information:

1. Interest received on Investment: ₹ 45,000.
2. Proposed dividend for the years ended 31st March, 2025 and 2026 were ₹ 60,000 and ₹ 90,000 respectively. You are required to prepare Cash Flow Statement.

[Ans.: Cash Flow from Operating Activities = ₹ 1,44,000; Cash Used in Investing Activities = ₹ 2,70,000; Cash Flow from Financing Activities = ₹ 1,47,000; Net Increase in Cash and Cash Equivalents = ₹ 21,000.]

18. Nazma Ltd. received interest on an item and the accountant classified it under financing activity while preparing Cash Flow Statement. Name another item for which such a treatment is possible.

(Delhi 2016 C)

Note by Authors: There seems to be printing error. Please read 'Investing Activity' in place of 'Financing Activity'.

19. From the following Balance Sheets of X Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		4,00,000	3,00,000
(b) Reserves and Surplus:			
Surplus, i.e., Balance in Statement of Profit & Loss		1,10,000	85,000
2. Non-Current Liabilities			
Long-term Borrowings: Bank Loan		75,000	75,000
3. Current Liabilities			
(a) Short-term Borrowings	1	...	25,000
(b) Trade Payables (Creditors)		2,95,000	3,10,000
(c) Short-term Provisions	2	60,000	45,000
Total		9,40,000	8,40,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment	3	4,15,000	3,20,000
2. Current Assets			
(a) Inventories (Stock)		2,25,000	2,00,000
(b) Trade Receivables	4	3,00,000	2,90,000
(c) Cash and Cash Equivalents		...	30,000
Total		9,40,000	8,40,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Short-term Borrowings		
Current Maturities of Long-term Debts (Bank Loan)	...	25,000
2. Short-term Provisions		
Provision for Tax	60,000	45,000
3. Property, Plant and Equipment		
Plant and Machinery	5,50,000	4,00,000
Less: Accumulated Depreciation	1,35,000	80,000
	4,15,000	3,20,000
4. Trade Receivables		
Debtors	1,90,000	2,10,000
Bills Receivable	1,10,000	80,000
	3,00,000	2,90,000

5.54

Additional Information:

A piece of machinery costing ₹ 60,000 on which accumulated depreciation was ₹ 15,000 was sold for ₹ 30,000.

[Ans.: Cash Flow from Operating Activities = ₹ 75,000; Cash Used in Investing Activities = ₹ 1,80,000; Cash Flow from Financing Activities = ₹ 75,000; Net Decrease in Cash and Cash Equivalents = ₹ 30,000.]

20. From the following Balance Sheet of Sultan Ltd. as at 31st March, 2026, prepare a Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	7,00,000	5,00,000
(b) Reserves and Surplus	2	2,50,000	3,25,000
2. Non-Current Liabilities			
Long-term Borrowings	3	2,00,000	2,00,000
3. Current Liabilities			
(a) Short-term Borrowings	4	4,00,000	5,50,000
(b) Trade Payables		1,50,000	40,000
(c) Short-term Provisions	5	1,90,000	1,50,000
Total		18,90,000	17,65,000
II. ASSETS			
1. Non-Current Assets			
(a) <i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) Property, Plant and Equipment (Machinery)		11,00,000	9,00,000
(ii) Intangible Assets (Goodwill)		40,000	90,000
(b) 10% Non-current Investments		2,00,000	1,40,000
2. Current Assets			
(a) Inventories		1,50,000	2,00,000
(b) Trade Receivables		1,80,000	1,50,000
(c) Cash and Cash Equivalents		2,20,000	2,85,000
Total		18,90,000	17,65,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	6,00,000	3,00,000
12% Preference Capital	1,00,000	2,00,000
	7,00,000	5,00,000
2. Reserves and Surplus		
General Reserve	1,50,000	3,75,000
Surplus, i.e., Balance in Statement of Profit & Loss	1,00,000	(50,000)
	2,50,000	3,25,000
3. Long-term Borrowings		
9% Debentures	2,00,000	2,00,000
4. Short-term Borrowings		
Current Maturities of Long-term Debts (9% Debentures)	...	50,000
12% Bank Loan	4,00,000	5,00,000
	4,00,000	5,50,000
5. Short-term Provisions		
Provision for Tax	1,90,000	1,50,000

Additional Information:

(i) Machinery costing ₹ 1,00,000 on which depreciation charged was ₹ 70,000, was sold at a profit of 20% on book value. Depreciation charged during the year amounted to ₹ 70,000.

- (ii) Bank loan was repaid and Preference Shares were redeemed at par on 31st March, 2026.
- (iii) Debentures were redeemed on 1st January, 2026 and Equity Shares were issued on 1st April, 2025.
- (iv) During the year, company declared and paid interim dividend on Equity Shares @ 8%. Final dividend was not proposed on equity shares.
- (v) At the end of the year some Non-current Investments costing ₹ 60,000 were sold at a profit of 20%. Some of Non-current investments were also made on 31st March, 2026.
- (vi) Tax paid during the year was ₹ 1,40,000 and adjusted against Provision for Tax Account.
- (vii) Proposed dividend for the year ended 31st March, 2025 ₹ 24,000 was paid during the year.

[Ans.: Cash Flow from Operating Activities = ₹ 3,36,375; Cash Used in Investing Activities = ₹ 2,98,000; Cash Used to Financing Activities = ₹ 1,03,375; Net Decrease in Cash and Cash Equivalents = ₹ 65,000.]

21. From the following extract of Balance Sheet of a company, calculate Cash Flow from Financing Activities:

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
Equity Share Capital	6,00,000	4,00,000
10% Preference Share Capital	2,00,000	3,00,000
Securities Premium	35,000	...
11% Debentures	5,00,000	4,00,000

Additional Information:

- (i) Equity shares were issued at a premium of 20% on 31st March, 2026.
- (ii) Underwriting commission on issue of equity shares ₹ 5,000. The company met underwriting commission from Securities Premium.
- (iii) Preference shares were redeemed on 31st March, 2026 at par along with dividend.
- (iv) Additional Debentures were issued on 1st April, 2025.
- (v) The company paid interim dividend @ 9% on Equity Share Capital. The company did not propose final dividend on Equity share Capital.

[Ans.: Cash Flow from Financing Activities = ₹ 1,14,000.]

22. Following are the Balance Sheets of Sreshtha Ltd. as on 31st March, 2026 and 2025:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		40,00,000	30,00,000
(b) Reserves and Surplus	1	10,00,000	6,00,000
2. Non-Current Liabilities			
Long-term Borrowings		6,00,000	4,00,000
3. Current Liabilities			
(a) Trade Payables		3,00,000	4,00,000
(b) Short-term Provisions	2	1,40,000	1,20,000
Total		60,40,000	45,20,000
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) Property, Plant and Equipment	3	38,00,000	30,00,000
(ii) Intangible Assets	4	9,40,000	5,40,000
2. Current Assets			
(a) Inventories		5,00,000	3,20,000
(b) Trade Receivables		4,20,000	4,20,000
(c) Cash and Cash Equivalents		3,80,000	2,40,000
Total		60,40,000	45,20,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
Surplus, i.e., Balance in Statement of Profit & Loss	10,00,000	6,00,000
2. Short-term Provisions		
Provision for Tax	1,40,000	1,20,000
3. Property, Plant and Equipment		
Machinery	42,00,000	33,00,000
Less: Accumulated Depreciation	(4,00,000)	(3,00,000)
	38,00,000	30,00,000
4. Intangible Assets		
Goodwill	9,40,000	5,40,000

Prepare a Cash Flow Statement after taking into account the following adjustment:

During the year, a piece of machinery costing ₹ 40,000 on which accumulated depreciation was ₹ 30,000, was sold for ₹ 9,000. (OD 2015 C, Modified)

[Ans.: Cash Flow from Operating Activities = ₹ 2,71,000; Cash Used in Investing Activities = ₹ 13,31,000; Cash Flow from Financing Activities = ₹ 12,00,000; Net Increase in Cash and Cash Equivalents = ₹ 1,40,000.]

23. From the following Balance Sheet of India Ltd. and the additional information given, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital: Equity Share Capital		4,00,000	3,00,000
(b) Reserves and Surplus	1	1,18,000	70,000
2. Non-Current Liabilities			
Long-term Borrowings		1,00,000	1,00,000
3. Current Liabilities			
(a) Short-term Borrowings	2	...	50,000
(b) Trade Payables	3	99,000	75,000
(c) Short-term Provisions	4	50,000	40,000
Total		7,67,000	6,35,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment	5	3,70,000	2,80,000
—Intangible (Goodwill)		90,000	1,15,000
2. Current Assets			
(a) Inventories		59,000	35,000
(b) Trade Receivables	6	2,30,000	1,80,000
(c) Cash and Cash Equivalents		18,000	25,000
Total		7,67,000	6,35,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
General Reserve	70,000	40,000
Surplus, i.e., Balance in Statement of Profit & Loss	48,000	30,000
	1,18,000	70,000
2. Short-term Borrowings		
Current Maturities of Long-term Debts	...	50,000
3. Trade Payables		
Creditors	83,000	55,000
Bills Payable	16,000	20,000
	99,000	75,000
4. Short-term Provisions		
Provision for Tax	50,000	40,000
5. Property, Plant and Equipment		
Land and Building	1,80,000	2,00,000
Plant	1,90,000	80,000
	3,70,000	2,80,000
6. Trade Receivables		
Debtors	2,00,000	1,60,000
Bills Receivable	30,000	20,000
	2,30,000	1,80,000

Note: Proposed equity dividends for the years ended 31st March, 2025 and 2026 are ₹ 50,000 and ₹ 60,000 respectively.

Additional Information:

- Depreciation of ₹ 10,000 and ₹ 20,000 have been charged on Plant and Land and Building respectively in 2025–26.
- An Interim Dividend of ₹ 20,000 has been paid in 2025–26.
- Share Issue Expenses of ₹ 5,000 were incurred and written off in 2025–26 from the Statement of Profit & Loss.
- Income Tax ₹ 35,000 was paid during the year 2025–26.

[Ans.: Cash Flow from Operating Activities = ₹ 1,38,000; Cash Used in Investing Activities = ₹ 1,20,000; Cash Used in Financing Activities = ₹ 25,000. Net Decrease in Cash and Cash Equivalents = ₹ 7,000.]

- 24.** From the following Balance Sheet of Clay Ltd., prepare Cash Flow Statement:

BALANCE SHEET as at 31st March, 2026

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		8,00,000	5,00,000
(b) Reserves and Surplus	1	3,50,000	2,05,000
2. Non-Current Liabilities			
Long-term Borrowings (10% Debentures)		4,00,000	4,00,000
3. Current Liabilities			
(a) Short-term Borrowings	2	50,000	1,00,000
(b) Trade Payables	3	75,000	1,00,000
(c) Other Current Liabilities	4	30,000	...
(d) Short-term Provisions	5	65,000	50,000
Total		17,70,000	13,55,000

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II. ASSETS			
1. Non-Current Assets			
(a) <i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) Property, Plant and Equipment	6	5,20,000	7,00,000
(ii) Intangible Assets		50,000	1,00,000
(b) Non-current Investments (10% Investments)		1,60,000	60,000
2. Current Assets			
(a) Inventories		50,000	60,000
(b) Trade Receivables		80,000	40,000
(c) Cash and Cash Equivalents		9,10,000	3,95,000
Total		17,70,000	13,55,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Reserves and Surplus		
Securities Premium		
Opening Balance	75,000	75,000
Less: Share Issue Expenses Written off	40,000	...
	35,000	75,000
Capital Reserve	...	5,000
Surplus, i.e., Balance in Statement of Profit & Loss	3,15,000	1,25,000
	3,50,000	2,05,000
2. Short-term Borrowings		
Current Maturities of Long-term Debts (10% Debentures)	...	1,00,000
10% Bank Loan	50,000	...
	50,000	1,00,000
3. Trade Payables		
Trade Creditors	55,000	50,000
Bills Payable	20,000	50,000
	75,000	1,00,000
4. Other Current Liabilities		
Unpaid Dividend	20,000	...
Unpaid Interest on Debentures	10,000	...
	30,000	...
5. Short-term Provisions		
Provision for Tax	65,000	50,000
6. Property, Plant and Equipment		
Building	2,50,000	4,00,000
Plant and Machinery	2,70,000	3,00,000
	5,20,000	7,00,000

Note: Proposed Dividend for the year ended 31st March, 2025 and 2026 are ₹ 1,15,000 and ₹ 1,25,000 respectively.

Additional Information:

- Interim Dividend of ₹ 50,000 was paid during the year.
- Share Issue Expenses of ₹ 40,000 were incurred and written off during the year 2025–26 from Securities Premium.
- Tax of ₹ 60,000 was paid during the year.
- Debentures were redeemed at par on 1st April, 2025 and Bank Loan was raised on the same date.

5. At the end of the year some Non-current Investments costing ₹ 40,000 were sold at a loss of 25% and some Non-current Investments costing ₹ 20,000 were sold at a profit of 25%. Profit/Loss on investments was adjusted against Capital Reserve. Additional Non-current investments were made on 31st March, 2026.

[Ans.: Cash Flow from Operating Activities = ₹ 4,34,000; Cash Flow from Investing Activities = ₹ 51,000; Cash Flow from Financing Activities = ₹ 30,000; Increase in Cash and Cash Equivalents = ₹ 5,15,000.]

[Hints:

1. Dr.		10% INVESTMENTS ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	60,000	By Bank A/c (Sale)	30,000		
To Capital Reserve A/c (Profit)	5,000	By Capital Reserve A/c (Loss on Sale)	10,000		
To Bank A/c (Purchase)	1,60,000	By Bank A/c (₹ 20,000 + ₹ 5,000)	25,000		
(Balancing Figure)		By Balance c/d	1,60,000		
	2,25,000		2,25,000		

2. Depreciation on Plant and Machinery—₹ 30,000; Sale of Building—₹ 1,50,000.]

25. From the following Balance Sheet of Varun Ltd. as at 31st March, 2026, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		1,50,000	1,25,000
(b) Reserves and Surplus	1	75,000	60,000
2. Non-Current Liabilities			
Long-term Borrowings : Bank Loan		20,000	...
3. Current Liabilities			
(a) Short-term Borrowings: Bank Overdraft		10,000	5,000
(b) Trade Payables	2	70,000	65,000
(c) Short-term Provisions	3	25,000	15,000
Total		3,50,000	2,70,000
II. ASSETS			
1. Non-Current Assets			
(a) Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment		30,000	20,000
(b) Non-current Investments		10,000	15,000
2. Current Assets			
(a) Inventories (Stock)		1,20,000	87,000
(b) Trade Receivables (Debtors)		90,000	98,000
(c) Cash and Cash Equivalents		1,00,000	50,000
Total		3,50,000	2,70,000

Notes to Accounts

Particulars	31st March, 2026 ₹	31st March, 2025 ₹
1. Reserves and Surplus		
General Reserve	15,000	10,000
Surplus, i.e., Balance in Statement of Profit & Loss	60,000	50,000
	<u>75,000</u>	<u>60,000</u>
2. Trade Payables		
Creditors	45,000	50,000
Bills Payable	25,000	15,000
	<u>70,000</u>	<u>65,000</u>
3. Short-term Provisions		
Provision for Tax	25,000	15,000

Additional Information:

1. During the year ₹ 5,000 depreciation was charged on fixed assets.
2. Company has paid ₹ 12,000 interim dividend during the year.
3. Tax provided during the year ₹ 20,000.

[Ans.: Cash Flow from Operating Activities = ₹ 22,000; Cash Used in Investing Activities = ₹ 10,000;
Cash Flow from Financing Activities = ₹ 38,000; Net Increase in
Cash and Cash Equivalents = ₹ 50,000.]