

Unit - 3

MODULE – 5

Cash Flow Statement

Practical Problems  
(With Solutions)

**Steps for solving example:**

1. According to the question prepared Adj. P & L Account and other necessary Account.
2. Apply all adjustments on the respected items which are connected to the accounts.
3. Mark on the particular transactions which are going to record in CFS also.
4. Find out balance for Adj. P & L Account and all other accounts.
5. Now, prepare CFS with Adj. Profit before tax and after depreciation and non-cash items.
6. Identified operating items like changes in working capital record first and then deduct tax liability form it, you will get answer that Cash Flow from operating activity.
7. Now, identified changes in fixed assets and investments and find out changes in Cash Flow from investing activities.
8. Finally, check about changes in financing activities and find out changes in Cash Flow from it like Equity capital, Pref. Cap., Debenture, Bank Loan, Dividend and Interest paid etc.
9. At last, make total of changes in all activities and added opening Bank and Cash balance on it. Answer will be showing it that is closing bank and cash balance.

### Illustration-1

The following are Balance Sheet and Income Statement of **Om** Ltd.

Liabilities	1.1.06	31.12.06	Assets	1.1.06	31.12.06
Share capital	1,80,000	2,22,000	Fixed Assets:		
Profit & loss A/c	75,900	81,900	Land	24,000	48,000
Creditors	1,20,000	1,17,000	Building	1,80,000	2,88,000
Outstanding Expenses	12,000	24,000	Current Assets:		
Provision for tax	6,000	6,600	Cash	30,000	36,000
Prov. for Dep. on building	60,000	66,000	Debtors	84,000	93,000
			Stock	1,32,000	48,000
			Advances	3,900	4,500
	4,53,900	5,17,500		4,53,900	5,17,500

**Information: Company sold building during the year, cost price of which was Rs. 36,000.**

### Profit And Loss A/C

For year ended 31.3.06

Particular	RS	Particular	RS
To Cost of sales	9,90,000	By Net sales	12,60,000
To Wages & salaries	1,20,000		
To Gross profit c/d	1,50,000		
	12,60,000		12,60,000
To Operating Exp.	40,000	By Gross profit	1,50,000
To Depreciation	30,000	By Profit on sale of Building	6,000
To Provision for tax	44,000		
To Net profit	42,000		
	1,56,000		1,56,000
To proposed Dividend	36,000	By Balance b/d	75,900
To balance Carried to balance sheet	81,900	By Net Profit (transf.)	42,000
	1,17,900		1,17,900

You are required to prepare a cash flow statement

**Solution:**

**Provision for tax A/c**

Particulars	Rs	Particulars	Rs
To Bank (tax paid )	43,400	By Balance b/d	6,000
To Balance c/d	6,600	By P & L A/c. (provision)	44,000
	50,000		50,000

**Building A/c**

Particulars	Rs	Particulars	Rs
To Balance b/d	1,80,000	By Dep. Provision a/c	24,000
To P & L A/c. (profit on sale)	6,000	By Bank(sale)	18,000
To Bank (purchase)	1,44,000	By Balance c/d	2,88,000
	3,30,000		3,30,000

**Depreciation provision on building A/c**

Particulars	Rs	Particulars	Rs
To Building a/c(dep.)	24,000	By Balance b/d	60,000
To Balance c/d	66,000	By P & L A/c. (current year's dep.)	30,000
	90,000		90,000

**Adjusted Profit and Loss Account**

Particulars	Rs	Particulars	Rs
To Provision for tax	44,000	By Balance b/d	75,900
To Prov. for dep. on building	30,000	By Profit on sale of building	6,000
To Dividend paid	36,000	By Adj. Profit	1,10,000
To Balance c/d	81,900		1,91,900
	1,91,900		1,91,900

**Cash flow statement of Om Ltd for the year ending on  
31.3.06 (As per A. S. - 3)**

Particulars	Amount Rs.	Amount Rs.
<b>(1) Cash Flow from Operating Activities:</b>		
Profit before tax (after non-cash items)	1,10,000	
Add/Less: Changes in Working Capital		
- Inc. in debtors	(9,000)	
- Dec. in stocks	84,000	
- Inc. in advances	(600)	
- Dec. in creditors	(3,000)	

- Inc. in Outstanding expenses	12,000	
<b>Cash flows from operating activities</b>		<b>1,93,400</b>
Less: Tax Paid		43,400
<b>NET CASH FLOW FROM OPERATING ACTIVITIES (A)</b>		<b>1,50,000</b>
<b>(2) Cash Flow from Investing Activities:</b>		
- Purchase of Land (refer question assets side)	(24,000)	
- Purchase of Building (refer building A/c.)	(1,44,000)	
- Sale of building (refer building A/c.)	18,000	
<b>NET CASH FLOW FROM INVESTING ACTIVITIES (B)</b>		<b>(1,50,000)</b>
<b>(3) Cash Flow from Financing Activities:</b>		
- Issued Equity Shares	42,000	
- Dividend paid	(36,000)	
<b>NET CASH FLOW FROM FINANCING ACTIVITIES (C)</b>		<b>6,000</b>
<b>NET CASH FLOW FROM ALL ACTIVITIES (A+B+C)</b>		<b>6,000</b>
Add: Opening Cash and Bank Balance		30,000
<b>Closing Cash and Bank Balance</b>		<b>36,000</b>

### Illustration: 2

Following are the balance sheets of a Vijay & son:

<b>Liabilities</b>	<b>1-1-05</b>	<b>31-12-05</b>	<b>Assets</b>	<b>1-1-05</b>	<b>31-12-05</b>
Creditors	36,000	41,000	Cash	4,000	3,600
Loan from Partner	-	20,000	Debtor	35,000	38,400
Loan from Bank	30,000	25,000	Stock	25,000	22,000
Capital	1,48,000	1,49,000	Land	20,000	30,000
			Building	50,000	55,000
			Machinery	80,000	86,000
	<b>2,14,000</b>	<b>2,35,000</b>		<b>2,14,000</b>	<b>2,35,000</b>

During the year Rs. 26,000 paid as dividend. The provision made for depreciation against machinery as on 1.1.05 was Rs. 27,000 and on 31.12.05 Rs 36,000.

Prepare a cash flow statement.

**Solution:**

#### Machinery Account

<b>Particulars</b>	<b>Rs</b>	<b>Particulars</b>	<b>Rs</b>
To Balance b/d	80,000	By Prov. for depreciation	36,000
To Prov. for depreciation	27,000	By Balance c/d	86,000
To Bank (purchase) ?	15,000		
	<b>1,22,000</b>		<b>1,22,000</b>

**Cash flow statement for the year ended 31.12.2005**

Particular	Rs.	Rs.
<b>1. Cash flows from operating activities:</b>		
Net profit before tax	27,000	
Adjustment for dep.	9,000	
Inc. in current liabilities	36,000	
Inc. in debtor	5,000	
Decrease in stock	(3,400)	
	3,000	
<b>Net cash from operating activities</b>		40,600
<b>2. Cash flows from investing activities</b>		
Purchase of land	(10,000)	
Purchase of building.	(5,000)	
Purchase of machinery	(15,000)	
<b>Net cash from investing activities</b>		(30,000)
<b>3. Cash flows from financing activities:</b>		
Loan	20,000	
Repayment of bank loan	(5,000)	
Payment of Dividends	(26,000)	
<b>Net cash from financing activities</b>		(11,000)
Net Cash Flow from all activities (A +B + C)		(400)
Add: opening cash balance		4,000
<b>Closing cash balance</b>		<b>3,600</b>

<b>W. N.</b>	
<b>Net profit before tax.</b>	
Capital (1.1.05)	1,48,000
Capital (31.12.05)	1,49,000
Diff.	1,000
Add. Dividends	26,000
	<b>27,000</b>

Illustration: 3

The summarized balance sheet of Bhadresh Ltd. as on 31.12.05 and 31.12.2006 are as follows:

Liabilities	2005	2006	Assets	2005	2006
Share capital	4,50,000	4,50,000	Fixed asset	4,00,000	3,20,000
General Reserve	3,00,000	3,10,000	Investment	50,000	60,000
P & I a/c	56,000	68,000	Stock	2,40,000	2,10,000
Creditors	1,68,000	1,34,000	Debtor	2,10,000	4,55,000
Tax provision	75,000	10,000	Bank	1,49,000	1,97,000
Mortgage loan	-	2,70,000			
	10,49,000	12,42,000		10,49,000	12,42,000

Additional Details:

1. Investment costing Rs. 8,000 were sold for Rs. 8,500
2. Tax provision made during the year was Rs. 9,000
3. During the year part of fixed assets costing Rs 10,000 was sold for Rs 12,000 and the profit was included in P & L A/c. You are required to prepare cash flow statement for 2006.

**Solution:**

**Cash flow statement for the year ended 31.12.2006**

Particular	Rs.	Rs.
1.Cash flows from operating activities:		
Net profit before tax (Rs. 28,500 in case Profit on sale on Investment & Fixed Asset not considered)	31,000	
Adjustment for:		
Dep.	70,000	
Profit on sale of investment	(500)	
Profit on sale of Fixed assets	(2,000)	
Dec. in stock	30,000	
Dec. in creditor	(34,000)	
Inc. in debtor	(2,45,000)	
Income tax paid	(74,000)	
Net cash from operating activities		(2,24,500)

2. Cash flows from investing activities:		
Investment purchased	(18,000)	
Sale of investment	8,500	
Sale of Fixed assets	12,000	
Net cash from investing activities		2,500
3. Cash flows from financing activities:		
Mortgage loan taken		2,70,000
Net Cash Flow from all activities (A + B + C)		48,000
Add: opening cash balance		1,49,000
Closing cash balance		1,97,000

Fixed Assets A/c

Particulars	Rs	Particulars	Rs
To Balance b/d	4,00,000	By Bank a/c	12,000
To Profit and Loss a/c	2,000	By Dep.	70,000
		By Balance c/d	3,20,000
	4,02,000		4,02,000

Provision for tax A/c

Particulars	Rs	Particulars	Rs
To Bank (tax paid )	74,000	By Balance b/d	75,000
To Balance c/d	10,000	By P & L A/c (provision)	9,000
	84,000		84,000

Investment A/c

Particulars	Rs	Particulars	Rs
To Balance b/d	50,000	By Bank(sale)	8,500
To P & L A/c	500	By Balance c/d	60,000
To Bank (purchase)	18,000		
	68,500		68,500

Adjusted P & L A/c

Particulars	Rs	Particulars	Rs
To Provision for tax	9,000	By Balance b/d	56,000
To Provision for G.R.	10,000	By Profit on sale of Inv.	500
To Balance c/d	68,000	By Profit on sale of F.A.	2,000
		By Adjusted Profit	28,500
	87,000		87,000



**Illustration: 4**

Prepare cash flow statement of Satyam ltd. From the following:

Liabilities	1.1.06	31.12.06	Assets	1.1.06	31.12.06
Share capital	1,00,000	4,00,000	Goodwill	-	20,000
8% debenture	-	2,00,000	Machinery	1,25,000	4,75,000
Retained earning	60,000	90,000	Stock	20,000	80,000
Creditors	40,000	1,00,000	Debtor	30,000	1,00,000
Bills payable	20,000	40,000	Bank	50,000	1,50,000
Tax provision	30,000	40,000	Cash	25,000	45,000
	2,50,000	8,70,000		2,50,000	8,70,000

**Additional Details:**

1. During 2006 the business of a sole trader was purchased by issuing share for Rs. 2,00,000. The assets acquired from him were:  
Goodwill Rs. 20,000, machinery Rs. 1,00,000 , stock Rs. 50,000 and Debtors Rs. 30,000
2. Provision for tax charged in 2006 was Rs. 35,000
3. The debenture was issued at a premium of 5% which is included in the retained earnings.
4. Depreciation charged on machinery was Rs.30,000.

**Solution:****Cash flow statement for the year ended 31.12.2006**

Particular	Rs	Rs
<b>1. Cash flows from operating activities:</b>		
Net profit before tax	55,000	
Adjustment for:		
Dep. On machinery	30,000	
Inc.. in creditor	60,000	
Inc.. in bills payable	20,000	
Inc.in stock	(10,000)	
Inc.. in debtor	(40,000)	
Income tax paid	(25,000)	
<b>Net cash from operating activities</b>		90,000
<b>2. Cash flows from investing activities:</b>		
Machinery purchased	(2,80,000)	
<b>Net cash from investing activities</b>		(2,80,000)

<b>3.Cash flows from financing activities</b>			
Issue of shares		1,00,000	
Issue of debenture		2,10,000	
Cash flows from financing activities			3,10,000
Net inc. in cash equivalents			1,20,000
Add: opening cash balance			75,000
<b>Closing cash balance</b>			<b>1,95,000</b>

**Provision for tax A/c**

Particulars	Rs	Particulars	Rs
To Bank (tax paid )	25,000	By Balance b/d	30,000
To Balance c/d	40,000	By P & L A/c (provision)	35,000
	65,000		84,000

**Machinery A/c**

Particulars	Rs	Particulars	Rs
To Balance b/d	1,25,000	By Depreciation	30,000
To Bank (purchase)	2,80,000	By Balance c/d	4,75,000
To Vendor	1,00,000		
	5,05,000		5,05,000

**Share Capital A/c**

Particulars	Rs	Particulars	Rs
		By Balance b/d	1,00,000
		By Vendor	2,00,000
To Balance c/d	4,00,000	By Bank	1,00,000
	4,00,000		4,00,000

**Illustration: 5**

The summarized balance sheet of Jay Ltd as on 31.12.06 and 31.12.2007 are as follows:

Liabilities	2006	2007	Assets	2006	2007
Share capital	1,00,000	1,00,000	Building	46,800	45,000
General Reserve	38,400	42,000	Plant and Machinery	38,280	42,030
Creditors	9,750	6,380	Goodwill	13,000	13,000
Tax provision	19,000	21,000	Investment	10,000	11,250
Prov. for doubtful debt	1,000	1,200	Stock	30,000	28,000
			Debtor	22,070	22,300
			Cash	8,000	9,000
	1,68,150	1,70,580		1,68,150	1,70,580

After taking the following information in to account, prepare a cash flow statement for the year ending 31.12.2007

1. The profit for 2006-2007 was Rs.8,600 against this had been charged Dep. Rs. 3,050 and increase in provision for doubtful debt Rs.200
2. Income tax Rs.18,000 was paid during the year charged against the provision and in addition Rs.20,000 was charged against profit and carried to the provision.
3. An interim dividend Of Rs.5,000 was paid in January 2007
4. Additional plan was purchased in September 2006 for Rs.5,000
5. Investments (cost Rs.5,000) were sold 2007 for Rs. 4800 and on 1<sup>st</sup> march 2007 another investment was made for Rs. 6,250.

**Solution:**

**Cash flow statement for the year ended 31.12.2007**

Particular	Rs.	Rs.
<b>1. Cash flows from operating activities:</b>		
Net profit before tax	28,800	
<b>Adjustment for:</b>		
Depreciation	3,050	
Inc. in provision for d/d	200	
Dec. in stock	2,000	
Dec. in creditor	(3,370)	
Inc. in debtor	(230)	
Income tax paid	(18,000)	
<b>Net cash from operating activities</b>		12,450
<b>2. Cash flows from investing activities:</b>		
Investment purchased	(6,250)	
Sale of investment	4,800	
Plant purchased	(5,000)	
<b>Net cash from investing activities</b>		(6,450)
<b>3. Cash flows from financing activities</b>		
Payment of interim dividend		(5,000)
<b>Net inc. in cash equivalents</b>		1,000
Add: opening cash balance		8,000
<b>Closing cash balance</b>		9,000

**Adjusted profit and loss A/c**

Particulars	Rs	Particulars	Rs
To Provision for tax	20,000	By profit	28,800
To General reserve	3,600		
To Loss on sale of Invest.	200		
To interim dividend	5,000		
	28,800		28,800

**Provision for tax A/c**

Particulars	Rs	Particulars	Rs
To Bank (tax paid )	18,000	By Balance b/d	19,000
To Balance c/d	21,000	By P & L A/c. (provision)	20,000
	39,000		39,000

**Illustration - 6**

The Balance Sheets of a firm as on 31st December 2008 and 2009 are given below:

Liabilities	2008	2009	Assets	2008	2009
Share Capital	1,00,000	1,60,000	Fixed Assets - Cost	1,52,000	2,00,000
Retained Earnings	70,250	85,300	Inventory	93,400	89,200
Accumulated Depreciation	60,000	40,000	Debtors	30,800	21,100
12% Debenture	50,000	-	Prepaid expenses	3,950	3,000
Creditors	28,000	48,000	Bank	28,100	20,000
	<b>3,08,250</b>	<b>3,33,300</b>		<b>3,08,250</b>	<b>3,33,300</b>

**Additional Information:**

1. Net profit is Rs. 27,050.
2. Depreciation charged Rs. 10,000.
3. Cash dividend declared during the period Rs. 12,000.
4. An addition to the building was made during the year at a cost of Rs. 78,000 and fully depreciated equipment costing Rs. 30,000 was discarded as no salvage being realized.

Prepare a Cash Flow Statement.

**Solution:**

**Adjusted Profit & Loss Account**

Particular	Amount	Particular	Amount
To Prov. for depreciation	10,000	By Balance b/d	70,250
To Dividend	12,000		
To Balance c/d	85,300	By Adj. Profit	37,050
	1,07,300		1,07,300

**Fixed Assets Account**

Particular	Amount	Particular	Amount
To Balance b/d	1,52,000	By Accumulated Dep.	30,000
To Bank	78,000	By Balance c/d	2,00,000
	2,30,000		2,30,000

**Accumulated Depreciation Account**

Particular	Amount	Particular	Amount
To Fixed Assets	30,000	By Balance b/d	60,000
To Balance c/f	40,000	By Profit & Loss A/c.	10,000
	70,000		70,000

**Cash flow statement for the year ending on 31.12.09 (As per A. S. - 3)**

Particulars	Amount Rs.	Amount Rs.
<b>(1) Cash Flow from Operating Activities:</b>		
Profit before tax (after non-cash & extraordinary items)		37,050
Add/Less: Changes in Working Capital		
- Dec. in Inventory	4,200	
- Decrease in Debtors	9,700	
- Increase in Creditors	20,000	
- Decrease in pre-paid expenses	950	34,850
<b>Cash flows from operating activities</b>		<b>71,900</b>
Less: Tax Paid		Nil
<b>NET CASH FLOW FROM OPERATING ACTIVITIES (A)</b>		<b>71,900</b>
<b>(2) Cash Flow from Investing Activities:</b>		
- Purchase of Building	(78,000)	
<b>NET CASH FLOW FROM INVESTING ACTIVITIES (B)</b>		<b>(78,000)</b>
<b>(3) Cash Flow from Financing Activities:</b>		
- Issued Equity Shares	60,000	
- Dividend paid	(12,000)	
- Redemption of debenture	(50,000)	
<b>NET CASH FLOW FROM FINANCING ACTIVITIES (C)</b>		<b>(2,000)</b>
<b>NET CASH FLOW FROM ALL ACTIVITIES (A+B+C)</b>		<b>(8,100)</b>
Add: Opening Cash and Bank Balance		28,100
<b>Closing Cash and Bank Balance</b>		<b>20,000</b>

**Illustration - 7**

From the following information, prepare cash flow statement:  
Balance-Sheet

<b>Liabilities</b>	<b>1-1-2012</b>	<b>31-12-2012</b>	<b>Assets</b>	<b>1-1-2012</b>	<b>31-12-2012</b>
Share Capital	2,00,000	2,00,000	Cash	8,000	10,000
Profit & Loss	50,000	90,000	Bank	22,000	20,000
Bank Loan	10,000	-	Debtors	10,000	20,000
Outstanding Expenses	5,000	1,000	Stock	25,000	15,000
Creditors	15,000	20,000	Non- current asset	2,35,000	2,75,000
Provision for tax	20,000	25,000			
Unclaimed Dividend	-	4,000			
	<b>3,00,000</b>	<b>3,40,000</b>		<b>3,00,000</b>	<b>3,40,000</b>

Net profit for the year 2012 after providing Rs.20,000 as depreciation was Rs. 60,000. During 2012, company declared equity dividend @ 10% and paid Rs. 15,000 as Income-tax.

**Solution:****Cash flow statement for the year ended on December 2012**

<b>Particulars</b>	<b>Amount Rs.</b>	<b>Amount Rs.</b>
<b>(1) Cash Flow from Operating Activities:</b>		
Increase in Profit & Loss account	40,000	-
Add: Proposed dividend (10% of 2,00,000)	20,000	
<b>Net Profit</b>	<b>60,000</b>	
Add: Depreciation	20,000	
Provision of Income tax	20,000	
Funds from operations	1,00,000	
Add: Increase in creditors	5,000	-
Decrease in stock	10,000	-
Less: Increase in debtors	(10,000)	-

Decrease in outstanding expenses	(4,000)	-
Cash generated from operations	1,01,000	
Less: Tax paid	(15,000)	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES (A)</b>	126000- 40000- 26000	<b>86,000</b>
<b>(2)Cash Flow From Investing Activities:</b>		
Purchase of Non -current Asset (2,95,000 – 2,35,000)	(60,000)	
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES (B)</b>		<b>(60,000)</b>
<b>(3)Cash Flow From Financing Activities :</b>		
Repayment of loan	(10,000)	
Repayment of dividend (20,000 – 4,000)	(16,000)	
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES (C)</b>		<b>(26,000)</b>
<b>NET CASH FLOW FROM ALL ACTIVITES (A+B+C)</b>		<b>Nil</b>
Add:- Opening balance of cash & bank		30,000
<b>Closing balance of cash &amp; bank</b>		<b>30,000</b>

**Illustration - 8**

From the following Balance-Sheet prepare cash flow statement for the year 2012.

<b>Liabilities</b>	<b>1-1-2012</b>	<b>31-12-2012</b>	<b>Assets</b>	<b>1-1-2012</b>	<b>31-12-2012</b>
Share Capital	1,25,000	1,53,000	Cash	10,000	7,000
Creditors	40,000	44,000	Debtors	30,000	50,000
Loan from X	25,000	-	Stock	40,000	25,000
Loan from bank	40,000	50,000	Machinery	80,000	55,000
			Land	35,000	50,000
			Building	35,000	60,000
	<b>2,30,000</b>	<b>2,47,000</b>		<b>2,30,000</b>	<b>2,47,000</b>

During the year a machine costing Rs. 10,000 with accumulated depreciation Rs. 3,000 was sold for Rs. 5,000.

**Solution:**

**Cash flow statement for the year ended on December 2012**

<b>Particulars</b>	<b>Amount Rs.</b>	<b>Amount Rs.</b>
<b>(1) Cash Flow from Operating Activities:</b>		
Capital at the end of the year	1,53,000	-
Less: Capital at the beginning of the year	(1,25,000)	
Profit for the year	28,000	
Add: Loss on sale of machinery	2,000	
Depreciation	18,000	
Profit before changes in working capital	48,000	
Add: Increase in creditors	4,000	
Decrease in stock	15,000	
Less: Increase in debtors	(20,000)	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES (A)</b>		<b>47,000</b>
<b>(2)Cash Flow From Investing Activities:</b>		
Sale of Machinery	5,000	
Purchase of land	(15,000)	
Purchase of Building	(25,000)	
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES (B)</b>		<b>(35,000)</b>
<b>(3)Cash Flow From Financing Activities:</b>		
Loan from bank	10,000	
Repayment of loan from X	(25,000)	
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES (C)</b>		<b>(15,000)</b>
<b>NET CASH FLOW FROM ALL ACTIVITES (A+B+C)</b>		<b>(3,000)</b>
Add:- Opening balance of cash & bank		10,000
<b>Closing balance of cash &amp; bank</b>		<b>7,000</b>



**Working Note:****Machinery Account**

<b>Particular</b>	<b>Amount</b>	<b>Particular</b>	<b>Amount</b>
To Balance b/d	80,000	By Bank a/c	5,000
		By Loss on sale	2,000
		By Depreciation	18,000
		By Balance c/f	55,000
	<b>80,000</b>		<b>80,000</b>

**Illustration - 9**

The following are the summarized financial statements of Ambuja Co. Ltd. for 2012 and 2013:

**Statement of Financial Position**

<b>Particulars</b>	<b>2013</b>	<b>2012</b>
<b>Assets:</b>		
Cash	9,000	15,000
Debtors	25,000	31,000
Stock	60,000	45,000
Fixed asset at cost	1,20,000	1,05,000
	<b>2,14,000</b>	<b>1,96,000</b>
<b>Liabilities:</b>		
Share Capital	32,500	31,500
6% Debentures due on 31-12-2015	50,000	70,000
Retained Earnings	38,500	27,500
Creditors	20,000	12,500
Income-tax Payable	36,000	27,500
Accumulated Depreciation	37,000	27,000
	<b>2,14,000</b>	<b>1,96,000</b>

**Income Statement**  
**(For The Year Ending 31<sup>st</sup> December)**

Particulars	Amount	Amount
Sales	4,25,000	4,50,000
Operating Expenses(including depreciation Rs. 10,000)	3,40,000	3,80,800
Interest on Debentures	3,000	4,200
Net Profit Before Tax	82,000	65,000
Income Statement	36,000	27,500
	<b>46,000</b>	<b>37,500</b>

**Statement of Retained Earnings**

Particulars	Amount	Amount
Retained Earnings – Beginning	27,500	25,000
Net Profit for the year	46,000	37,500
	<b>73,500</b>	<b>62,500</b>
Dividends	35,000	35,000
Retained Earnings – End	38,500	27,500

**Solution:**

**Cash Flow Statement**

Particulars	Amount	Amount
<b>(1) Cash Flow from Operating Activities:</b>		
Net Profit		82,000
(Changes in working capital)		
Decrease in Debtors	6,000	
Increase in Creditors	7,500	
Depreciation	10,000	
	<b>23,500</b>	
Increase in Stock	(15,000)	8,500

<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>90,500</b>
Less: Tax Paid		(27,500)
<b>NETCASH PROVIDED BY OPERATING ACTIVITIES(A)</b>		<b>63,000</b>
<b>(2)Cash Flow From Investing Activities:</b>		
Purchase of fixed assets	(15,000)	
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES (B)</b>		<b>(15,000)</b>
<b>(3)Cash Flow From Financing Activities:</b>		
Issue of shares	1,000	
Redemption of Debentures	(20,000)	
Dividend Paid	(35,000)	
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES (C)</b>		<b>(54,000)</b>
<b>NET CASH FLOW FROM ALL ACTIVITES (A+B+C)</b>		<b>(6,000)</b>
Add:- Opening balance of cash		15,000
<b>Closing balance of bank</b>		<b>9,000</b>