

CASH FLOW STATEMENT

STUDY NOTES

- **Meaning of cash flow statement:**

Cash flow statement, which shows inflows and outflows of the cash and cash equivalents during a specific period.

A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing and financing activities.

Cash Flow Statement is prepared in accordance with Accounting Standard- 3 (AS-3).

- **Objectives of Cash Flow Statement:**

The primary objective of cash flow statement is to provide useful information about cash flows (inflows and outflows of cash and cash equivalents) of an enterprise during a particular period under operating activities, investing activities and financing activities.

- **Benefits of Cash Flow Statement:**

- It provides information that enables users to evaluate changes in net assets of an enterprise, its financial structure and its ability to affect the amounts and timings of cash flows in order to adapt to changing circumstances and opportunities.
- It is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises.
- It also enhances the comparability of the reporting of operating performance by different enterprises.
- It also helps in balancing its cash inflow and cash outflow, keeping in response to changing condition.
- It is also helpful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and impact of changing prices.
- It is useful for Short term financial Planning.
- It is useful in preparing the Cash Budget.
- It is useful in Trend analysis of Cash Receipt and Cash payments.
- It explains the reasons of difference of Cash from earning.
- It is helpful to Management for taking various decisions.
- It is useful in comparative Study of Actual cash position with budget.

- **Limitation of Cash flow Statement**

- Ignores non Cash Transactions.
- Ignores the Accrual concept of accounting.
- No substitute for income statement.
- Historical in nature.
- No substitute for Balance Sheet.
- Assessment of Liquidity not Possible.

- **Cash and Cash Equivalents:**

Cash flow statement shows inflows and outflows of cash and cash equivalents from various activities of an enterprise during a particular period.

As per AS-3, Cash comprises cash in hand and demand deposits with banks and

Cash equivalents' means short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

An investment normally qualifies as cash equivalents only when it has a short maturity say three months or less from the date of acquisition.

- **Cash Flows:**

Cash Flows imply movement of cash in and out due to some non-cash items. Receipt of cash from a non-cash item is termed as cash inflow while cash payment in respect of such items as cash outflow.

For example, purchase of machinery by paying cash is cash outflow while sale proceeds received from sale of machinery is cash inflow.

Other examples of cash flows include collection of cash from trade receivables, payment to trade payables, payment to employees, receipt of dividend, interest payments, etc.

- **Classification of Activities for the Preparation of Cash Flow Statement:**

As per AS-3, activities for preparing cash flow statement are to be classified into three categories:

- Operating activities,
- Investing activities and
- Financing activities

- **Cash from Operating Activities:**

Operating activities are the principal revenue generating activities (or the main activities) of the enterprise and these activities are not investing or financing activities.

Cash flows from operating activities are primarily derived from the main activities of the enterprise.

They generally result from the transactions and other events that enter into the determination of net profit or loss.

Examples of cash flows from operating activities are:

Cash Inflows from operating activities for non financing companies

- Cash receipts from sale of goods and the rendering of services.
- Cash receipts from royalties, fees, commissions and other revenues.

Cash Outflows from operating activities for non financing companies

- Cash payments to suppliers for goods and services.
- Cash payments to and on behalf of the employees.
- Cash payments to an insurance enterprise for premiums and claims, annuities, and other policy benefits.
- Cash payments of income taxes unless they can be specifically identified with financing and investing activities.
- The net position is shown in case of operating cash flows.

- Financing enterprise may hold securities and loans for dealing or for trading purposes. In this case they represent inventory specifically held for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities.

- Similarly, cash advances and loans made by financial enterprises are usually classified as operating activities since they relate to main activity of that enterprise.

- **Cash from Investing Activities**

As per AS-3, investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Investing activities relate to purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, etc. Transactions related to long term investment are also investing activities. Examples of cash flows arising from investing activities are:

Cash Outflows from investing activities

- Cash payments to acquire fixed assets including intangibles and capitalised research and development.
- Cash payments to acquire shares, warrants or debt instruments of other enterprises other than the instruments those held for trading purposes.
- Cash advances and loans made to third party (other than advances and loans made by a financial enterprise wherein it is operating activities).

Cash Inflows from Investing Activities

- Cash receipt from disposal of fixed assets including intangibles.
- Cash receipt from the repayment of advances or loans made to third parties (except in case of financial enterprise).
- Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes.
- Interest received in cash from loans and advances.
- Dividend received from investments in other enterprises.

● **Cash from Financing Activities**

As per AS-3, financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in case of a company) and borrowings of the enterprise. Examples of financing activities are:

Cash Inflows from financing activities

- Cash proceeds from issuing shares (equity or/and preference).
- Cash proceeds from issuing debentures, loans, bonds and other short/ long-term borrowings.

Cash Outflows from financing activities

- Cash repayments of amounts borrowed.
- Interest paid on debentures and long-term loans and advances.
- Dividends paid on equity and preference capital.

- When the installment paid in respect of a fixed asset acquired on deferred payment basis includes both interest and loan, the interest element is classified under financing activities and the loan element is classified under investing activities.
- Purchase of shares is an operating activity for a share brokerage firm while it is investing activity in case of other enterprises.

● **Extraordinary items:**

Extraordinary items (like loss due to theft or earthquake or flood.)are non-recurring in nature and hence cash flows associated with extraordinary items should be classified and disclosed separately as arising from operating, investing or financing activities.

● **Interest and Dividend:**

In case of a financial enterprise (whose main business is lending and borrowing), interest paid, interest received and dividend received are classified as operating activities while dividend paid is a financing activity.

In case of a non-financial enterprise, payment of interest and dividends are classified as financing activities whereas receipt of interest and dividends are classified as investing activities.

● **Taxes on Income and Gains:**

Taxes may be income tax (tax on normal profit), capital gains tax (tax on capital profits), and dividend tax (tax on the amount distributed as dividend to shareholders).

AS-3 requires that tax on operating profit should be classified as operating cash flows, dividend tax, i.e., tax paid on dividend should be classified as financing activity along with dividend paid and Capital gains tax paid on sale of fixed assets should be classified under investing activities.

● **Non-cash Transactions:**

As per AS-3, investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement.

Examples of such transactions are acquisition of machinery by issue of equity shares or redemption of debentures by issue of equity shares. Hence, assets acquired by issue of shares are not disclosed in cash flow statement due to non-cash nature of the transaction.

● **Proposed Dividend**

As per AS-4, Contingencies and Events Occurring after the Balance Sheet Date, Proposed dividend is shown in the Notes to Accounts. It will be shown as contingent liability since it becomes a liability after it is declared (approved) by the shareholders.

It will be accounted in the books of account after it is declared (approved) by the shareholders in the Annual General Meeting.

Thus, previous year's Proposed Dividend will be declared (approved) in the current year; previous year's Proposed Dividend will be accounted as dividend payable.

Proposed dividend of previous year after declaration (approved) by the shareholders will be debited to surplus i.e., Balance in Statement of Profit and Loss.

While preparing cash flow statement, previous year's proposed dividend will be added to find Profit under operating activities and will be shown under financial activity.

QUESTION BANK

MULTIPLE CHOICE QUESTIONS

- Ganesh Limited is engaged in manufacturing of tobacco packages. Ganesh Limited purchased 1,000 equity shares of ₹50 each of Sanjay Limited. For the purpose of preparing Cash Flow Statements, under which category of activities the purchase of shares will be classified by Ganesh Limited?
 - Cash outflow under investing activity
 - Cash outflow under financing activity
 - Cash inflow under investing activity
 - Cash inflow under financing activity
- X Limited is engaged in trading of securities. X Limited purchased 5,000 equity shares of ₹10 each of Balaji Limited. For the purpose of preparing Cash Flow Statements, under which category of activities the purchase of shares will be classified by X Limited?
 - Cash outflow under investing activity
 - Cash outflow under financing activity
 - Cash outflow under operating activity
 - No flow of cash
- How will you treat increase in Bank Overdraft in a Cash Flow Statement?
 - Cash Flow from Operating Activities
 - Cash Flow from Investing Activities
 - Cash Flow from Financing Activities
 - Cash Equivalent
- _____ is an example of cash flows from investing activity.
 - Cash revenue from operations
 - Commission received
 - Payment of cash for purchase of fixed assets
 - Dividend paid
- Operating activities are _____ revenue producing activities of an enterprise and those activities that are not investing or financing activities.
 - Subsidiary
 - Principal
 - Extraordinary
 - Normal
- The statement of cash flows clarifies cash flows according to _____.
 - Operating and non-operating flows
 - Investing and non-operating flows
 - Inflows and outflows
 - Operating, investing and financing activities

7. Activities that result in changes in the size and composition of the owners' capital and borrowings of the enterprise are _____ activities.
- (a) Operating (b) Financing
(c) Investing (d) Trading
8. Cash deposit with the bank with a maturity date after two months belongs to which of the following while preparing cash flow statement:
- (a) Investing activities (b) Financing activities
(c) Cash and Cash equivalents (d) Operating activities
9. _____ is the source of cash.
- (a) Cash deposited into Bank
(b) Cash withdrawn from Bank
(c) Sale of Goods costing ₹10,000 for ₹18,000
(d) Sale of marketable securities for cash ₹5,000
10. What will be the inflow of cash from sale of asset?
Office Equipment on 31st March, 2021 ₹60,000; On 31st March, 2020 ₹1,00,000
Additional Information:
Depreciation for the year 2020-21 is ₹7,000, Purchase of office Equipment during the year ₹10,000; Part of Office Equipment sold at a profit of ₹6,000
- (a) ₹48,000 (b) ₹49,000 (c) ₹44,000 (d) ₹33,000
11. _____ Activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- (a) Operating (b) Investing
(c) Financing (d) None of the above
12. The goodwill of X Ltd. is ₹3,00,000 in 2019-20 and ₹1,50,000 in 2020-21. What will be its treatment while preparing Cash Flow Statement for the year ended 31st March 2021?
- (a) Add in operating activities ₹1,50,000 as goodwill written off.
(b) Minus in operating activities ₹1,50,000 as goodwill written off.
(c) Add in investing activities ₹1,50,000 as goodwill purchased
(d) Minus from investing activities ₹1,50,000 as goodwill sold.
13. Cash flow statement is prepared for financial planning of _____
- (a) Long range (b) Medium range (c) Short range (d) Very Long range
14. Finance Ltd is carrying on a Mutual Fund business. It invested ₹30,00,000 in shares and ₹15,00,000 in debentures of various companies during the year. It has received ₹3,00,000 as dividend and interest. Cash flows from investing activities would be ₹_____.
- (a) 45,00,000 (b) 30,00,000 (c) 3,00,000 (d) Nil
15. Which of the following is not application of cash?
- (a) Increase in Debtors (b) Increase in Inventory
(c) Increase in Bills Payable (d) Increase in Prepaid Expenses
16. Finance Ltd is carrying on a Mutual Fund business. It invested ₹30,00,000 in shares and ₹15,00,000 in debentures of various companies during the year. It has received ₹3,00,000 as dividend and interest. Cash flows from operating activities would be ₹_____.
- (a) (42,00,000) (b) 45,00,000
(c) 3,00,000 (d) 42,00,000
17. Which of the following is not source of cash?
- (a) Issue of shares (b) Purchase of Machinery
(c) Sale of Asset (d) Dividend received

26. Cash deposited in bank will be classified under which kind of activity?
 (a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
 (c) Cash Flow from Financing Activities (d) No Cash Flow

27. From the following information find out depreciation of current year.

	31st March, 2021	31st March, 2020
Plant and Machinery Account	₹6,00,000	₹4,50,000
Accumulated Depreciation	₹1,60,000	₹1,00,000

- (a) 60,000 (b) 1,00,000
 (c) 1,60,000 (d) 2,60,000
28. While calculating operating profit which will be subtracted from Net profit:
 (a) Preliminary Expenses Written off (b) Depreciation
 (c) Loss on Sale of Asset (d) Profit on sale of land
29. What will be the net amount of 'Source' or 'Use' of cash when computer having book value of ₹25,000 is sold at a profit of ₹5,000.
 (a) Use ₹30,000 (b) Source ₹30,000
 (c) Use ₹25,000 (d) Source ₹5,000
30. Declaration of Final Dividend of previous year would result in ____
 (a) Outflow in Financing activities (b) Outflow in Operating activities
 (c) Inflow in Operating activities (d) No Flow of cash in current year
31. Which of the following item is not considered as cash equivalents?
 (a) Short term deposits in bank (b) Commercial papers
 (c) Marketable securities (d) Long term Investment
32. Accounting standard _____ is applicable for cash flow statement.
 (a) AS-3 (b) AS-15 (c) AS-9 (d) AS-26
33. While calculating operating profit _____ will be added to net profit.
 (a) Profit on Sale of Asset (b) Increase in General Reserves
 (c) Interest received (d) Refund of Tax
34. Cash receipts from sale of goods & rendering of services, Royalties and Commission Received are example of _____.
 (a) Cash and cash equivalent (b) Operating activities
 (c) Investing activities (d) Financing activities
35. Under which type of activity will you classify 'Rent received' while preparing cash flow statement?
 (a) Cash and cash equivalent (b) Inflow of cash from Operating activities
 (c) Inflow of cash from Investing Activities (d) Inflow of cash from Financing activities
36. What will be the outflow of cash for the purchase of machinery if, Written down value of machinery as on 1.4.2021 is ₹5,00,000; Written down value of machinery as on 31.3.2022 is ₹7,00,000; Depreciation on machinery charged during the year ₹60,000; Machinery having book value ₹25,000 sold for ₹20,000.
 (a) ₹2,70,000 (b) ₹2,80,000 (c) ₹2,75,000 (d) ₹2,85,000
37. While calculating cash flow from operating activities _____ will be deducted.
 (a) Decrease in Prepaid Expenses (b) Increase in Trade Payables
 (c) Increase in Trade Receivables (d) Decrease in Trade Receivables
38. Interest on bank loan ₹30,000 paid. Where will you show it in a Cash Flow Statement?
 (a) In operating Activities and financing activities (b) In investing Activities and operating activities
 (c) in Financing Activities and investing activities (d) Cash and cash equivalent

39. Dividend received by ABC Pharma Limited will be a _____ for the organization and will be classified as _____ activity.

- (a) Inflow, investing (b) Inflow, financing
(c) Outflow, financing (d) Inflow, Operating

40. _____ is an example of cash flow from financing activity.

- (a) Payment of dividend (b) Receipt of dividend on investment
(c) Cash received from customer (d) Purchase of fixed assets

41. Which one of the following will not be recorded in CFS?

- (a) Issue of shares for cash (b) Repayment of debentures by cash
(c) Purchase of raw materials for credit (d) Sale of investment.

42. From the following information find out depreciation of current year.

	31st March, 2021	31st March, 2020
Accumulated Depreciation	₹1,60,000	₹ 1,00,000

Plant and machinery costing ₹50,000 having accumulated depreciation ₹20,000, is sold for 35,000.

- (a) 80,000 (b) 20,000
(c) 1,00,000 (d) 1,60,000

43. The basis of Cash Flow Statement is _____.

- (a) Accrual basis (b) Cash basis
(c) Hybrid (d) Management

44. While calculating cash flow from operating activities _____ will be added :

- (a) Increase in Inventory (b) Increase in Creditors
(c) Decrease in Bills Payable (d) Increase in Trade Receivables

45. P P Limited is Share Broker Company. G G Limited is engaged in manufacturing of packaged food. P P Limited purchased 5,000 equity shares of ₹100 each of Savita Limited. G G Limited also purchased 10,000 equity shares of ₹100 each of Savita Limited. For the purpose of preparing their respective Cash Flow Statements, under which category of activities the purchase of shares will be classified by P P Limited and G G Limited?

- (a) For P P Limited: Investing Activity; For G G Limited: Investing Activity
(b) For P P Limited: Investing Activity; For G G Limited: Financing Activity
(c) For P P Limited: Financing Activity; For G G Limited: Investing Activity
(d) For P P Limited: Financing Activity; For G G Limited: Financing Activity

46. Cash from Operating activities will decrease due to :

- (a) Increase in Current Assets (b) increase in Current Liabilities
(c) Decrease in current asset (d) None of these

47. Poonam Garments Ltd. is engaged in the export of readymade garments. The company purchased a machinery of ₹50,00,000. Cash flow due to the purchase of machinery will be cash flow from:

- (a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities (d) Cash Equivalent

48. What will be Cash Flow from investing activities under following condition?

Purchase of building ₹3,00,000

Equity Shares of ₹1,00,000 were issued at a Premium 20%

Sale of vehicles ₹30,000

Sale of goods ₹40,00,000 for cash

- (a) Cash outflow ₹2,70,000 (b) Cash inflow ₹2,50,000
(c) Cash inflow ₹3,00,000 (d) Cash outflow ₹1,50,000

49. Interest paid in installments for loan taken to purchase building on deferred payment basis will be classified as
- (a) Investing activity (b) Operating activity
(c) Financing activity (d) Cash and cash equivalents
50. Principal amount paid in installments for loan taken to purchase building on deferred payment basis will be classified as
- (a) Investing activity (b) Operating activity
(c) Financing activity (d) Cash and cash equivalents
51. Which of the following is incorrect about the statement of cash flows?
- (a) It provides information about the cash receipt and cash payments of an enterprise.
(b) It reconciles ending cash balance with the balance as per bank statement.
(c) It provides information about the operating, investing and financing activities.
(d) It explains the deviation of cash from Earnings.
52. An example of cash flow from operating activity is :
- (a) Purchase of own debenture (b) Sale of fixed assets.
(c) Interest paid on term-deposits by a bank (d) Issue of equity share capital
53. If a machine whose original cost is ₹50,000 having accumulated depreciation ₹15,000 were sold for ₹35,000 then while preparing cash flow statement its effect on cash flow will be:
- (a) Cash flow from financing activities ₹35,000
(b) Cash flow from financing activities ₹65,000
(c) Cash flow from investing activities ₹35,000
(d) Cash flow from investing activities ₹15,000
54. _____ is an example of Cash Flow from Operating Activity.
- (a) Cash receipts from sale of goods and services
(b) Sale of long-term investments
(c) Interest Received
(d) Issue of Debentures
55. State the amount source or use of cash when a fixed asset having book value of ₹35,000 is sold at a loss of ₹5,000.
- (a) Use of ₹35,000 (b) Use of ₹40,000
(c) Source of ₹30,000 (d) Source of ₹40,000
56. Where will you show purchase of goodwill in a cash flow statement?
- (a) Cash flow from operating activities (b) Cash flow from investing activities
(c) Cash flow from financing activities (d) Cash equivalent
57. Dividend paid to share holders by Ajay Ltd, a financing company is classified under which kind of activity while preparing cash flow statement?
- (a) Cash outflow from operating activities
(b) Cash flow from investing activities
(c) Cash outflow under financing activities
(d) Cash inflow from operating activities
58. _____ is an example of cash flow from Operating Activities.
- (a) Issue of Shares (b) Purchase of Machinery
(c) Purchase of Investment (d) Purchase of Inventory for Cash
59. Dividend paid by Ajay Ltd, a trading company is classified under which kind of activity while preparing cash flow statement?
- (a) Cash outflow from operating activities (b) Cash flow from investing activities
(c) Cash outflow under financing activities (d) Cash inflow from operating activities

60. An example of cash flow from investing activity is :
- Issue of debenture ₹1,00,000
 - Repayment of debentures ₹40,000
 - Purchase of raw materials for credit ₹90,000
 - Sale of investment by non-financial enterprise ₹20,000
61. Depreciation on machinery will be _____.
- Debited to machinery account
 - Credited to machinery account
 - Debited to accumulated depreciation A/c
 - None of the above
62. Interest received by a finance company is classified under which kind of activity while preparing a cash flow statement?
- Cash flow from operating activities
 - Cash flow from investing activities
 - Cash flow from financing activities
 - Cash and cash equivalent
63. An example of Cash Flows from Investing Activity is:
- Cash Revenue from Operations ₹50,000
 - Commission Received ₹30,000
 - Payment of cash for purchase of fixed assets ₹5,00,000
 - Dividend paid ₹5,000
64. What will be Cash Flow from financing activities under following condition?
 Equity Shares of ₹1,00,000 were issued at a Premium 20%
 Preference Shares of ₹2,00,000 were redeemed at a Premium 5%
 14% Debenture of ₹50,000 were issued at a discount of 10%
 Interest on debentures paid ₹7,000
- Cash outflow ₹52,000
 - Cash inflow ₹52,000
 - Cash inflow ₹1,65,000
 - Cash outflow ₹2,17,000
65. How will you classify loans ₹8,00,000 given by Tata finance company?
- Cash outflow under operating activities
 - Cash flow from investing activities
 - Cash outflow under financing activities
 - No flow of cash
66. An Example of cash flow from financing activity is :
- Payment of dividend ₹4000
 - Receipt of dividend on investment ₹5,000
 - Cash received from customer ₹46,000
 - Purchase of Machine ₹3,00,000
67. Which of the following is considered as cash equivalents?
- Marketable securities
 - Trade receivables
 - Machinery
 - Bills of exchange
68. Which of the following shall be considered as an outflow of cash in cash flow statement ₹40,000?
- Decrease in Public Deposits by 40,000
 - Increase in public deposits by 40,000
 - Decrease in inventories by 40,000
 - Decrease in accounts receivables by 40,000
69. Under which type of activity will you classify refund of income tax received while preparing cash flow statement?
- Investing
 - Operating
 - Financing
 - Will not be considered.
70. Profit on sale of machinery will be _____.
- Debited to machinery account
 - Credited to machinery account
 - Credited to accumulated depreciation A/c
 - Debited to accumulated depreciation A/c
71. Cash Flows from Financing Activity is:
- Credit Revenue from Operations
 - Cash receipts from issue of shares
 - Sale of Investments
 - Interest Received

72. Which of the following item is not considered as cash equivalents?
- (a) Marketable securities (b) Commercial papers
(c) Bank overdraft (d) Current investments
73. If a machines whose original cost is ₹60,000; accumulated depreciation ₹12,000, were sold for ₹40,000. While preparing Cash Flow Statement, loss on sale of ₹8,000 will be _____.
- (a) Added in operating activities (b) Subtracted from operating activities
(c) Added in investing activities (d) Added in financing activities
74. Amar Ltd provides you the following information:
Equity Share Capital collected during the year ₹5,00,000
9 % debentures issued for purchase of asset was ₹2,00,000
Repayment of bank loan ₹50,000
Dividend paid during the year was 35,000
Cash flow from financing activities will be ₹ _____
- (a) ₹6,15,000 (b) ₹4,15,000
(c) ₹5,00,000 (d) ₹4,50,000
75. Interest paid ₹50,000 on debentures by an investment company will come under which kind of activity while preparing cash flow statement?
- (a) Cash flow from operating activities (b) Cash flow from investing activities
(c) Cash flow from financing activities (d) No cash flow
76. Y Ltd a finance company receives a dividend of ₹60,000 on its investment in X Ltd's shares. It will be classified under which kind of activity?
- (a) Cash flow from operating activities (b) Cash flow from investing activities
(c) Cash flow from financing activities (d) No cash flow
77. 9% debentures of ₹2,00,000 were redeemed at a premium of 10%. While preparing Cash Flow Statement its effect on cash flow will be :
- (a) Cash used from financial activities ₹2,20,000
(b) Cash used from financing activities ₹2,18,000
(c) Cash received from financing activities ₹2,18,000
(d) Cash used from financial activities ₹2,00,000
78. If the amount of goodwill is ₹1,50,000 at the beginning of a year and ₹1,58,000 at the end of that year, then while preparing cash flow statement its effect on cash flow will be:
- (a) Cash used in Investing Activities ₹8,000 (b) Cash received from operating activities ₹8,000
(c) Cash used in Operating Activities ₹8,000 (d) Cash used in Financial Activities ₹8,000
79. Increase in the balance of 'Securities Premium Reserve' will be shown in Cash Flow Statement under:
- (a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities (d) Cash Equivalent
80. Smita Ltd paid dividend to its equity share holders. Payment of dividend in a Cash flow statement will be _____.
- (a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities (d) Cash Equivalent
81. State whether conversion of debenture into equity shares by a financing company will result in _____ of cash.
- (a) No flow (b) Inflow (c) Outflow (d) loss
82. Withdrawal of cash from bank for office use will result in to _____.
- (a) No flow of cash (b) Inflow of cash
(c) Outflow of cash (d) Transfer of cash

83. Where will you show Goodwill ₹20,000 written off in a Cash Flow Statement?
 (a) Operating Activities (b) Investing Activities
 (c) Financing Activities (d) Cash Equivalent
84. Interest received by ABC Mutual fund, a finance company is classified under which kind of activity while preparing a Cash flow statement?
 (a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
 (c) Cash Flow from Financing Activities (d) No Cash Flow
85. Patents purchased and completely amortized in the year of purchase is added under _____ activities and shown as an outflow under _____ activities.
 (a) Operating, investing (b) Operating, financing
 (c) Financing, operating (d) Investing, operating
86. How will you classify deposits by customers in Bank of Baroda?
 (a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
 (c) Cash Flow from Financing Activities (d) No Cash Flow
87. A Mutual Fund Company receives a dividend of ₹50,0000 on its investments in PQR Ltd. company's shares. It will appear in a Cash Flow Statement under _____.
 (a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
 (c) Cash Flow from Financing Activities (d) No Cash Flow
88. Which of the following item is considered as Cash Equivalents?
 (a) Marketable Securities (b) Debtors
 (c) Building (d) Bills of Exchange
89. Cash withdrawn from the bank is
 (a) Investing activities (b) Financing activities
 (c) Cash and Cash equivalent (d) Operating activities
90. From the following particulars, what will be the amount of provision for tax made during the year?
- | Provision | Taxation |
|-----------|----------|
| 31.3.2021 | 50,000 |
| 31.3.2022 | 40,000 |
- The Company paid taxes Rs 45,000 for the year 2021-2022.
 (a) ₹45,000 (b) ₹35,000
 (c) ₹40,000 (d) ₹50,000
91. Which of the following transactions would result inflow of cash:
 (a) Cash withdrawn from Bank for office use.
 (b) Purchase of machinery worth ₹6,00,000 and issued shares in consideration thereof.
 (c) Sale of furniture for ₹3,000 to Mr. Mohan.
 (d) Cash received from Debtors ₹6,000
92. Which of the following transactions would not create a cash flow?
 (a) A company purchased new car (b) Amortization of a patent
 (c) Payment of a Cash Dividend (d) Sale of equipment at book value
93. Which of the following transaction would not be recorded in the cash flow statement?
 (a) Equity Share Capital collected during the year ₹6,00,000
 (b) 9 % debentures issued for purchase of asset was ₹1,00,000
 (c) Repayment of bank loan ₹1,50,000
 (d) Dividend paid during the year was 85,000

94. While calculating profit before tax and extra ordinary items, which of the following will be added in net profit?
 (a) Transfer to reserve (b) Proposed dividend of current year
 (c) Provision for tax of previous year (d) Credit purchase of goods
95. What will be the cash flow from financing activities?
 Equity Share Capital raised ₹3,00,000; 8% Debentures Redeemed ₹1,00,000 Preference Share capital Redeemed ₹50,000. Interim Dividend paid during the year 20,000.
 (a) 1,30,000 inflows (b) 2,30,000 inflows
 (c) 1,70,000 inflows (d) 1,30,000 outflows
96. Which of the following transactions would result in neither inflow nor outflow of cash and cash equivalents?
 (a) Issue of share capital ₹5,00,000 (b) Issue of bonus shares ₹3,00,000
 (c) Redemption of debentures ₹60,000 (d) Trade receivable realized ₹30,000
97. Cash profit on sale of goods ₹40,000 is _____
 (a) Operating activity (b) Investing activity
 (c) Financing activity (d) Cash and Cash Equivalents
98. A decrease in outstanding expense by ₹5,000 would result in
 (a) Will be added in operating activities (b) Will be subtracted from operating activities
 (c) No effect in CFS (d) None of the above
99. Debentures issued for consideration other than cash will _____
 (a) Be shown in financing activity as inflow (b) Be shown in investing activity as outflow
 (c) Not be shown in CFS (d) Be shown as outflow in financing activity
100. Loss on sale of machinery will be _____
 (a) Debited to machinery account (b) Credited to machinery account
 (c) Credited to accumulated depreciation A/c (d) Debited to accumulated depreciation A/c
101. Purchase of securities of another company by a non-finance company is _____
 (a) Operating activity (b) Investing activity
 (c) Financing activity (d) Cash and cash equivalent
102. Non cash items does not include _____
 (a) Depreciation (b) Cash received from trade receivables
 (c) Goodwill amortised (d) Provision for bad debts
103. Gratuity paid to a retiring employee is _____
 (a) Operating activity. (b) Investing activities
 (c) Financing activities (d) Cash and cash equivalent
104. What will be Cash Flow from operating activities under following condition?
 Purchase of building ₹4,00,000
 Equity Shares issued of ₹1,00,000
 Sale of goods ₹40,00,000 for cash
 Purchase of material ₹4,00,000
 (a) 40,00,000 (b) 36,00,000
 (c) 33,00,000 (d) 44,00,000
105. Under which type of activity will you classify payment of bonus to employees while preparing cash flow statement?
 (a) Operating (b) Investing
 (c) Financing (d) Cash equivalent
106. Cash deposited in to bank will result in to _____
 (a) No flow of cash (b) Inflow of cash
 (c) Outflow of cash (d) Transfer of cash

INPUT-TEXT BASED MCQs

Read the following text and answer the following questions (107 to 110) on the basis of the same:

Nipurn an alumni of IIM Ahemdabad initiated his startup Nipurn Ltd. in 2018. The profits of Nipurn Ltd. in the year 2019-20 after all appropriations was ₹31,25,000. This profit was arrived after taking into consideration the following items:-

S.No.	Particulars	Amount (in ₹)
1.	Gain on sale of fixed tangible assets	12,50,000
2.	Goodwill written off	7,80,000
3.	Transfer to General Reserve	8,75,000
4.	Provision for taxation	4,37,500

Additional Information:

Particulars	31.03.2020 (in ₹)	31.3.2019 (in ₹)
Prepaid Expenses	7,50,000	5,00,000
Inventory	10,50,000	8,20,000
Trade Payables	4,50,000	3,50,000
Trade Receivables	6,20,000	5,90,000

107. Net Profit before tax will be ₹ _____
 (a) 22,50,000 (b) 35,62,500 (c) 39,67,500 (d) 44,37,500
108. Operating profit before working capital changes will be ₹ _____
 (a) 52,17,500 (b) 64,67,500 (c) 39,67,500 (d) 39,69,500
109. Cash from operating activities before tax will be ₹ _____
 (a) 35,57,500 (b) 40,67,500 (c) 37,87,500 (d) 35,67,300
110. Cash flow from Operating Activities will be ₹ _____
 (a) 39,95,000 (b) 31,20,000 (c) 40,67,500 (d) 31,00,000

ANSWERS

Multiple Choice Questions

- | | | | | | | | | | |
|----------|----------|----------|----------|----------|----------|---------|---------|---------|----------|
| 1. (a) | 2. (c) | 3. (c) | 4. (c) | 5. (b) | 6. (d) | 7. (b) | 8. (c) | 9. (c) | 10. (b) |
| 11. (b) | 12. (b) | 13. (c) | 14. (d) | 15. (c) | 16. (a) | 17. (b) | 18. (d) | 19. (a) | 20. (a) |
| 21. (d) | 22. (a) | 23. (b) | 24. (a) | 25. (b) | 26. (d) | 27. (a) | 28. (d) | 29. (b) | 30. (a) |
| 31. (d) | 32. (a) | 33. (b) | 34. (b) | 35. (c) | 36. (d) | 37. (c) | 38. (a) | 39. (a) | 40. (a) |
| 41. (c) | 42. (a) | 43. (b) | 44. (b) | 45. (a) | 46. (a) | 47. (b) | 48. (a) | 49. (c) | 50. (a) |
| 51. (b) | 52. (c) | 53. (c) | 54. (a) | 55. (c) | 56. (b) | 57. (c) | 58. (d) | 59. (c) | 60. (d) |
| 61. (b) | 62. (a) | 63. (c) | 64. (a) | 65. (a) | 66. (a) | 67. (a) | 68. (b) | 69. (b) | 70. (a) |
| 71. (b) | 72. (c) | 73. (a) | 74. (b) | 75. (a) | 76. (a) | 77. (a) | 78. (a) | 79. (c) | 80. (c) |
| 81. (a) | 82. (a) | 83. (a) | 84. (a) | 85. (a) | 86. (a) | 87. (a) | 88. (a) | 89. (c) | 90. (b) |
| 91. (d) | 92. (b) | 93. (b) | 94. (a) | 95. (a) | 96. (b) | 97. (a) | 98. (b) | 99. (c) | 100. (b) |
| 101. (b) | 102. (b) | 103. (a) | 104. (b) | 105. (a) | 106. (a) | | | | |

Input-Text Based MCQs

107. (d) 108. (c) 109. (a) 110. (b)

HINTS TO SOME SELECTED QUESTIONS

10. Office equipment account debited by: $1,00,000 + 10,000 + 6,000 = 1,16,000$ Office equipment account credited with $7,000 + 60,000 = 67,000 =$ Net debit balance 49,000 (sale).
19. Accumulated depreciation A/c credited with ₹1,80,000 and debited with 1,60,000, difference 20,000 transferred to Plant A/c.
Plant account debited with 7,40,000 and credited with 6,20,000. So difference ₹1,20,000 is inflow from sale of asset.
22. $3,00,000 - 1,00,000 - 20,000 = 1,80,000$.
24. $1,00,000 + 2,00,000 - 1,20,000 - 48,000 - 50,000 = 82,000$.
27. $1,60,000 - 1,00,000 = 60,000$.
30. Previous year's Proposed Dividend will be declared in the current year; Proposed dividend of previous year after declaration by the shareholders will be debited to surplus i.e., Balance in Statement of Profit and Loss.
36. $7,00,000 + 60,000 + 20,000 + 5,000 - 5,00,000 = 2,85,000$.
42. Accumulated depreciation A/c debited with ₹1,80,000 and credited with ₹1,00,000, hence, difference ₹80,000 is depreciation of current year.
74. $5,00,000 - 50,000 - 35,000 = 4,15,000$.
Note: Debentures does not result in to inflow of cash.
90. $40,000 + 45,000 - 50,000 = 35,000$.
96. Bonus shares are issued free of cost, hence, no flow of cash.

