

## 1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 04 (Class XII, Semester – 2)
Module Name/Title	Financial Statements of a Company – Part 4
Module Id	leac_20304
Pre-requisites	Basic knowledge of Financial Statements
Objectives	At the end of the lesson, the learners will be able to: <ul style="list-style-type: none"><li>• Explain meaning of Cash Flow Statement</li><li>• State the importance of Cash Flow Statement</li><li>• State the objectives of Cash Flow Statement</li><li>• Solve Questions of Financial Statements</li></ul>
Keywords	Financial Statements, Cash Flow statement.

## 2. Development Team

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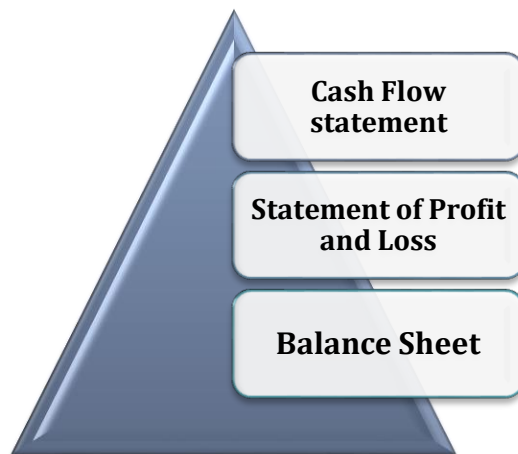
1. Introduction
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### 1.1. Introduction

The financial details that are prepared by the business enterprisers so as to meet the information requirement of the decision-makers are known as financial statements. These statements provide financial data that require analysis, comparison and interpretation for taking decision by the external as well as internal users of accounting information. This act is termed as financial statement analysis.

Financial statements are the basic and formal annual reports through which the corporate management communicates financial information to its owners and various other external parties which include investors, tax authorities, government, employees, etc.

Financial statements include:



This module will cover the last type of financial statement that is the Cash Flow Statement. Chapter No. 5 in NCERT will cover the topic Cash flow statement in detail, here we will discuss it briefly.

### 2.1. Meaning of Cash Flow Statement

Cash flow statements exhibit the flow of incoming and outgoing cash. This statement assesses the ability of the enterprise to generate cash and to utilize the cash. This statement is one of the tools for assessing the liquidity and solvency of the enterprise.

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A cash flow statement is a *financial statement* that presents total data. Including cash inflows a business gains from its continuing progress and external financing sources, as well as all cash outflows that pay for trading activities and finances during a delivered time. In other words, a cash flow statement is a financial statement that estimates the cash produced or used by a firm in a presented time.

### 3.1 Importance of Cash Flow Statement

- A cash flow statement, when employed with other financial reports, permits users to assess variations in net assets of a firm and its economic system. It involves liquidity and stability, the capability to influence the amounts and timings of cash flows to adjust to varying conditions and possibilities.
- Cash flow data evaluate the capability of a firm to produce cash and cash equivalents. It permits users to generate models to assess and analyze the existing value of the expected cash flows of various companies.
- It also assists in stabilizing its cash inflow and outflow, following in acknowledgement to the varying situation. It is also essential in verifying the correctness of prior estimates of anticipated cash flows and in exploring the association between profitability and net cash flow and the result of varying cost prices.

### 4.1 Objectives of Cash Flow Statement

- (i) Useful in short-term financial planning.
- (ii) Useful inefficient cash management.
- (iii) Helpful in formulation of business policies.
- (iv) Assists in preparation of cash budget.
- (v) Used for assessment of cash flow from various activities, viz operating, investing and financing activities.

### 5.1 Illustrations on Financial Statements

#### Illustration 1

**A company has an opening credit balance in Surplus, i.e., Balance in Statement of Profit and Loss of ₹ 1,00,000. During the year, it earned a profit of ₹ 75,000. It decided to transfer ₹ 15,000 to Debentures Redemption Reserve (DRR) and also proposed to pay dividend of ₹ 5,000. How will be the appropriations shown in the financial statements?**

**Solution:**

**Extract of Balance Sheet**

as at .....

Particulars	Note No.	Amount (Rs)
<b>I. Equity and Liabilities</b>		
<b>1. Shareholders' Funds</b>		
a. Share Capital		
b. Reserves and Surplus	1	1,50,000
<b>2. Share Application Money Pending Allotment</b>		
<b>3. Non-Current Liabilities</b>		
<b>4. Current Liabilities</b>		
a. Short-term Provisions	4	50,000
<b>Total</b>		

**Working Notes:**

Note No.	Particulars	Amount (Rs)
1	<b>Reserves and Surplus</b>	
	<b>(a) Surplus, i.e. Balance in Statement of Profit and Loss</b>	
	1,00,000	
	<i>Add:</i> Profit for the year	75,000
	<i>Less:</i> Appropriations	
	Transfer to Debenture Redemption Reserve	(15,000)
	Proposed Dividend	(25,000)
		<b>1,35,000</b>
	<b>(b) Debenture Redemption Reserve</b>	
	Transferred from Surplus i.e. Balance in Statement of Profit and Loss	<b>15,000</b>
	Total (a + b) [to be Shown in Balance Sheet against Reserves and Surplus]	<b>1,50,000</b>
4	<b>Short-term Provisions</b>	
	Proposed Dividend	<b>50,000</b>

## Illustration 2

From the following information of XYZ Ltd. for the year ended 31st March, 2019, calculate amount that will be shown in the Note to Accounts on Changes in inventories of Finished Goods, WIP and stock-in-Trade:

Particulars	Opening Inventory (₹)	Closing inventory(₹)
<b>Finished Goods</b>	<b>5,00,000</b>	<b>5,50,000</b>
<b>Work-in-Progress</b>	<b>4,50,000</b>	<b>4,25,000</b>
<b>Stock-in-Trade</b>	<b>6,50,000</b>	<b>6,00,000</b>

**Solution:**

Note No.	Particulars	Amount (Rs)
	<b><i>Change in Inventories of Finished Goods, WIP and Stock-in-Trade</i></b>	
(a)	<b>Finished Goods</b>	
	Opening Inventory	5,00,000
	Less: Closing Inventory	5,50,000
		<b>(50,000)</b>
(b)	<b>Work-in-Progress</b>	
	Opening Inventory	4,50,000
	Less: Closing Inventory	4,25,000
		<b>25,000</b>
(c)	<b>Stock-in-Trade</b>	
	Opening Inventory	6,50,000
	Less: Closing Inventory	6,00,000
		<b>50,000</b>
	<b>Net Change (a+b+c)</b>	<b>25,000</b>

Therefore, Rs 25,000 will be shown in the Statement of Profit and Loss against the Change in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade.

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**Illustration 3:**

From the following information, prepare Note to Accounts on Finance Costs: Interest paid to Bank ₹ 75,000; Interest on Debentures ₹ 58,000; Loss on issue of Debentures written off ₹ 27,500; and Commitment Charges ₹ 15,000.

*Solution:*

Note No.	Particulars	Amount (Rs)
	<b><i>Finance Costs</i></b>	
	Interest paid to bank	75,000
	Interest on Debentures	58,000
	Loss on Issue of Debentures written off	27,500
	Commitment charges	15,000
		<hr/>
		1,75,500
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		<b>1,75,500</b>
		<hr/>

**Illustration 4:**

Under which line item (major head) of the Statement of Profit and Loss of non-financial company will the following be shown:

(i) Sale of Goods; (ii) Revenue from Services Rendered; (iii) Interest Earned; (iv) Gain (Profit) on Sale of Assets; (v) Purchases of Stock-in-Trade; (vi) Salaries and Wages; (vii) Interest paid to Bank; (viii) Carriage Outward

*Solution:*

ITEMS	MAJOR HEAD
Sale of Goods	Revenue from Operations
Revenue from Services rendered	Revenue from Operations
Interest earned	Other Income
Profit on Sale of Assets	Other Income
Purchase of Stock-in-Trade	Purchase of Stock-in-Trade
Salaries and Wages	Employees Benefit Expenses
Interest paid to Bank	Finance Costs
Carriage Outward	Other Expenses

**Illustration 5 :**

Under which head following revenue items of a non-financial company will be classified or shown:

(i) Sales; (ii) Revenue from Services Rendered; (iii) Sale of Scrap; (iv) Interest Earned on Loans; and (v) Gain (profit) on Sale of Investments?

**Solution:**

ITEMS	HEAD
Sales	Revenue from Operations
Revenue from services rendered	Revenue from Operations
Sale of scrap	Revenue from Operations
Interest earned or Loans	Other Income
Profit on Sale of Investment	Other Income

**Illustration 6:**

From the following information of Hospitality Ltd. for the year ended 31st March, 2018, calculate amount that will be shown in the Note to Accounts on Changes in inventories of Finished Goods, WIP and stock-in-Trade:

Particulars	Opening Inventory (₹)	Closing inventory(₹)
Finished Goods	5,00,000	5,50,000
Work-in-Progress	4,50,000	4,25,000
Stock-in-Trade	6,50,000	6,00,000

**Solution:**

Note No.	Particulars	Amount (Rs)
(a)	<i>Change in Inventories of Finished Goods, WIP and Stock-in-Trade</i>	
	<b>Finished Goods</b>	
	Opening Inventory	5,00,000
	<i>Less: Closing Inventory</i>	5,50,000
		<b>(50,000)</b>

(b)	<b>Work-in-Progress</b>		
	Opening Inventory	4,50,000	
	<i>Less:</i> Closing Inventory	4,25,000	25,000
			<b>25,000</b>
(c)	<b>Stock-in-Trade</b>		
	Opening Inventory	6,50,000	
	<i>Less:</i> Closing Inventory	6,00,000	50,000
			<b>50,000</b>
	<b>Net Change (a+b+c)</b>		<b>25,000</b>

**Rs 25,000 will be shown in the Statement of Profit and Loss against the Change in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade.**

**Illustration 7:**

**From the following data of H.P. Ltd. as at 31st March, 2019, prepare Balance Sheet:**

Particulars	31st March,
	2018 (₹)
Equity Share Capital	5,00,000
Preference Share Capital	2,50,000
Reserves and Surplus	4,50,000
<i>Long-term Borrowings:</i> 12% Debentures	5,50,000
Loan from Directors	2,00,000
Short-term Borrowings	1,75,000
Trade Payables	1,00,000
Short-term Provisions	25,000
Fixed Assets (Tangible)	15,00,000
Inventories	2,50,000
Trade Receivables	4,50,000
Cash and Cash Equivalents	50,000



**Solution:**

**Balance Sheet as on 31<sup>st</sup> March 2019 of H.P Ltd**

<b>Particulars</b>	<b>(₹)</b>
<b>I. Equity and Liabilities</b>	
<b>1. Shareholders' Funds</b>	
a. Share Capital	
1. Equity Share Capital	12,50,000
2. Preference Share Capital	2,50,000
<b>Total</b>	<b>15,00,000</b>
b. Reserve and Surplus	3,00,000
	18,00,000
<b>2. Non-Current Liabilities</b>	
a. Long-term Borrowings	
12% Secured Debentures	9,50,000
12% Unsecured Debentures	2,50,000
	12,00,000
<b>3. Current Liabilities</b>	
a. Short-Term Borrowings	3,50,000
b. Trade Payables	2,00,000
c. Short-Term Provisions	50,000
<b>Total</b>	<b>36,00,000</b>
<b>II. Assets</b>	
<b>1. Non-Current Assets</b>	
a. Fixed Assets (Tangible)	22,50,000
<b>2. Current Assets</b>	
a. Inventories	4,50,000
b. Trade Receivables	8,00,000
c. Cash and Cash Equivalents	1,00,000
<b>Total</b>	<b>36,00,000</b>

**Illustration 8:**

Prepare Statement of Profit and Loss from the following information:

Particulars	31st March, 2019
Revenue from Operations	₹ 37,50,000
Other Income	₹ 4,50,000
Cost of Materials Consumed	₹ 22,50,000
Other Expenses	₹ 3,75,000
Tax Rate	50%

*Solution:*

Particulars	March 31, 2019 (₹)
I. Revenue from operations	37,50,000
II. Other Income	4,50,000
<b>III. Total Revenue (I + II)</b>	<b>42,00,000</b>
IV. Expenses	
a. Cost of Materials Consumed	22,50,000
b. Other Expenses	3,75,000
	<b>26,25,000</b>
<b>Profit before Income Tax</b>	<b>15,75,000</b>
Less: Income Tax @ 50%	7,87,500
<b>Profit after Income Tax</b>	<b>7,87,500</b>

**Illustration 9:**

From the following information, calculate Change in Inventory of Stock-in-Trade: Opening and Closing Stock-in-Trade ₹5,00,000 and ₹4,00,000 respectively.

*Solution:*

Note No.	Particulars	Amount (Rs)
(a)	<b>Stock-in-Trade</b>	
	Opening Inventory	5,00,000
	Less: Closing Inventory	4,00,000
		<b>1,00,000</b>

Rs 1,00,000 will be shown in the Statement of Profit and Loss against Change in Inventories of Stock-in-Trade.

**Illustration 10:**

From the following information, prepare Note to Accounts on Employees Benefit Expenses: Wages ₹ 2,70,000; Salaries ₹ 3,60,000; Staff Welfare Expenses 60,000; Printing and Stationery Expenses ₹ 20,000 and Business Promotion Expenses ₹ 50,000.

**Solution:**

Note No.	Particulars	Amount (Rs)
	<b>Employees Benefit Expenses</b>	
	Wages 2,70,000	
	Salaries 3,60,000	
	Staff Welfare Expenses 60,000	6,90,000
	<b>Amount to be shown in the Statement of Profit and Loss</b>	<b>6,90,000</b>

\*Amount spent on promotion of business and printing & Stationery expenses are not included in Employees Benefit Expenses.

**Summary**

The financial details that are prepared by the business enterprisers so as to meet the information requirement of the decision-makers are known as financial statements. These statements provide financial data that require analysis, comparison and interpretation for taking decision by the external as well as internal users of accounting information.

Financial statements includes: Cash Flow statement, Statement of Profit and Loss and Balance Sheet. Cash flow statements exhibit the flow of incoming and outgoing cash. This statement assesses the ability of the enterprise to generate cash and to utilize the cash. This statement is one of the tools for assessing the liquidity and solvency of the enterprise.

A cash flow statement is a *financial statement* that presents total data. Including cash inflows a business gains from its continuing progress and external financing sources, as well as all cash outflows that pay for trading activities and finances during a delivered time. In other words, a cash flow statement is a financial statement that estimates the cash produced or used by a firm in a presented time.

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The importance of a cash flow statement is when employed with other financial reports, permits users to assess variations in net assets of a firm and its economic system. It involves liquidity and stability, the capability to influence the amounts and timings of cash flows to adjust to varying conditions and possibilities.

Cash flow data evaluate the capability of a firm to produce cash and cash equivalents. It permits users to generate models to assess and analyze the existing value of the expected cash flows of various companies. It also assists in stabilizing its cash inflow and outflow, following in acknowledgement to the varying situation. It is also essential in verifying the correctness of prior estimates of anticipated cash flows and in exploring the association between profitability and net cash flow and the result of varying cost prices.

The Objectives of Cash Flow Statement are it is useful in short-term financial planning. It is also useful inefficient cash management. Helpful in formulation of business policies. Assists in preparation of cash budget and used for assessment of cash flow from various activities, viz operating, investing and financing activities.