Financial Accounting
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Lecture – 106
7.15 Practice Problem (Part 2)

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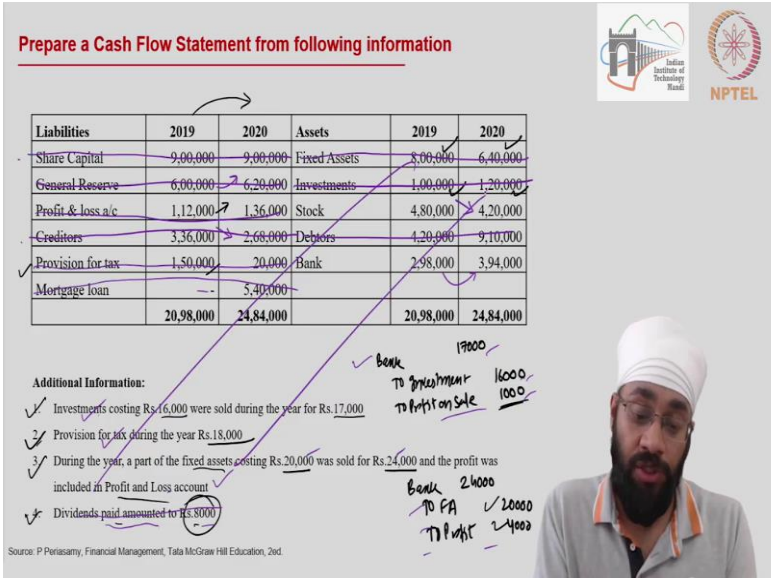

This is a continuation of the previous video. Next up, we are going to transfer all these amounts to their respective places in the cash flow statement. For convenience let us start with the liability side, with the share capital here.

In share capital there is no change, so we do not have to do anything about it. I am just crossing it off my list. General reserve amount goes up, which means that you would have taken money out of the profit and transferred here so 20,000 to be added back to profit.

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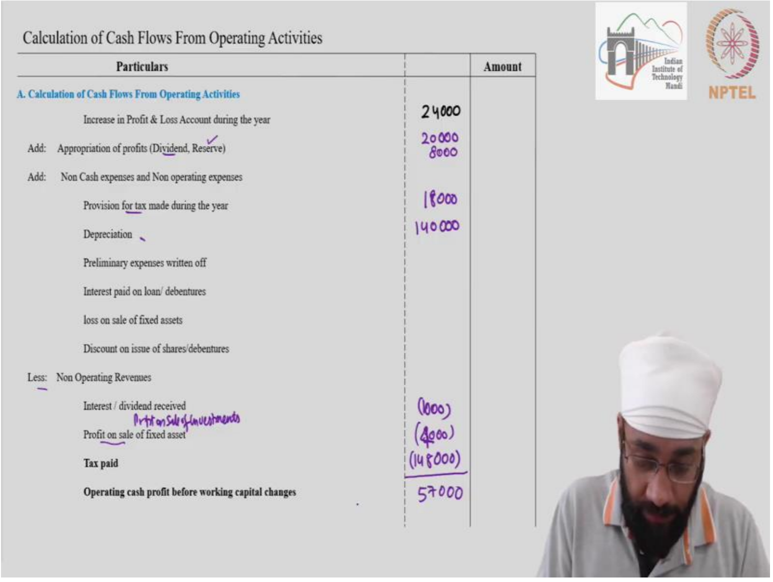

So, appropriation, reserve 20,000 to be added back. Then you have creditors. Creditors are going down during the year; this is a working capital item. So, I will go to the working capital changes, the amount comes out to be 32000 plus 36. So, 68000 is the decrease in creditors.

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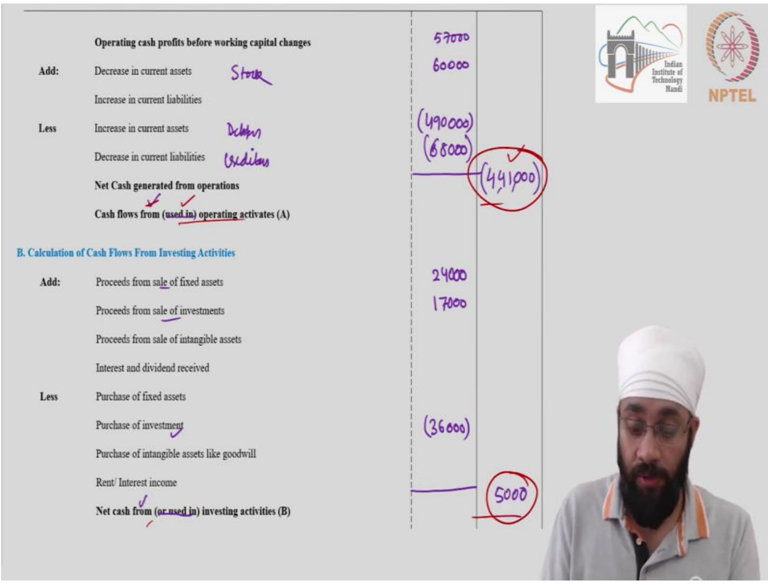

This is 68000 the decrease, cross it off as well. Just double checking the numbers. This is 32 and 68, makes sense, provision for tax. Now, we have prepared an account for provision for tax. Therefore, we are not going to consider this, but we will go to the account here, is a provision for tax account.

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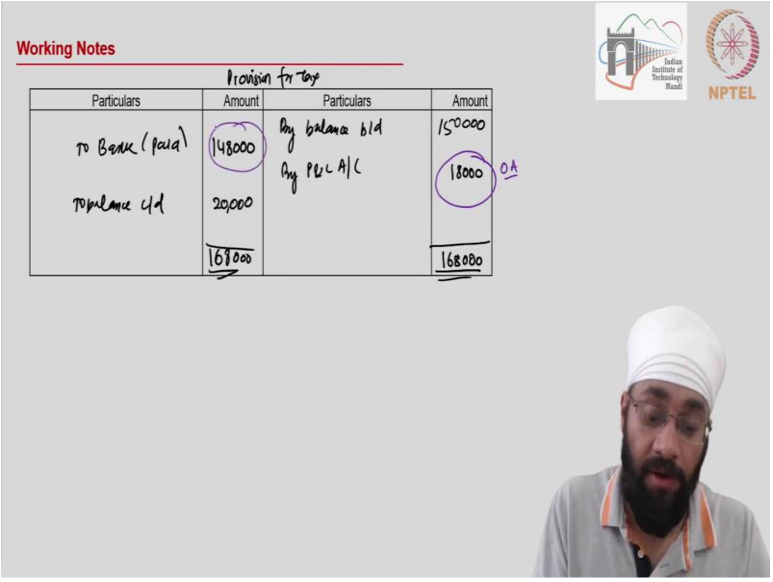

And from this account we know that the provision is created during the year. So, this will go to operating activities, 18,000 to be added back. So, 18,000 provision for tax to be added back, because this is not the actual payment.

Now, what is the actual payment of tax? Actual payment of tax is 148,000. I wrote it here and done. Then you have a mortgage loan nil to begin with and then you have raised 540,000.

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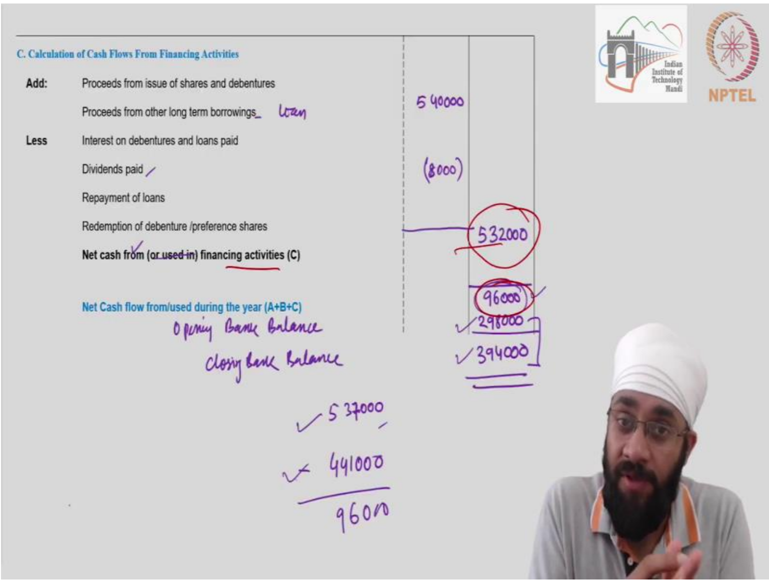

So, loan 540 raised goes to financing activities, proceeds from long term borrowings. So, this was 540,000 inflows because loan is being raised. Let us now go to fixed assets. For fixed assets we prepared an account. So, we are not going to look at these numbers, we will go to the account in the fixed assets account here.

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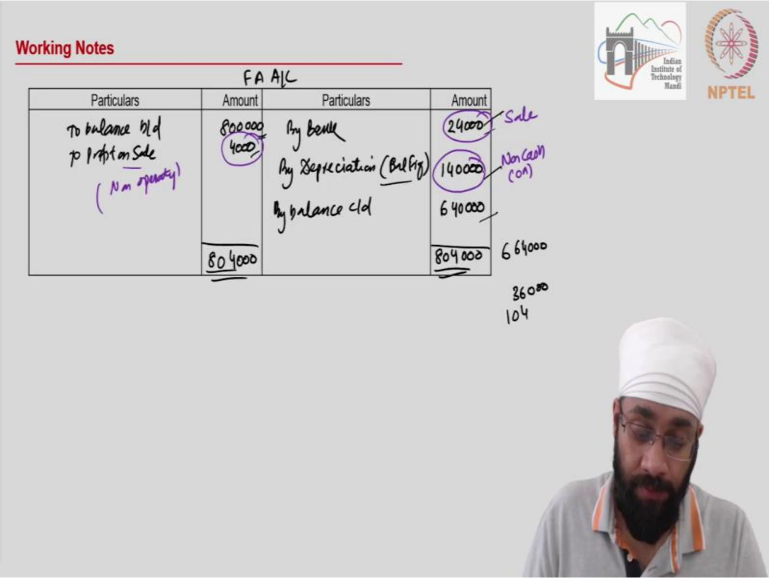

We have a sale; this is a sale this is an inflow of 24,000. So, we will add it here, sale of fixed assets 24,000 is an inflow. Then, you have depreciation during the year; this is a non-cash expense. So, we will go to operating activities and add it back depreciation 140,000; depreciation 140,000. Then, you have a profit on sale, 4,000, this profit would have been added to the profit and loss account, this is a non operating income. So, we are not going to include this in the operating profit, 40,000 to be deducted.

So, here you deduct non-operating profit on sale of fixed assets and the amount was 3,000. Let me double check, amount is 4,000. And done with the fixed assets. There is nothing else to be used from the fixed assets account; everything has been taken to their respective places. Let us go back to our balance sheet. Then you have investments; for investments we have an account as well. So, we will not look at these numbers.

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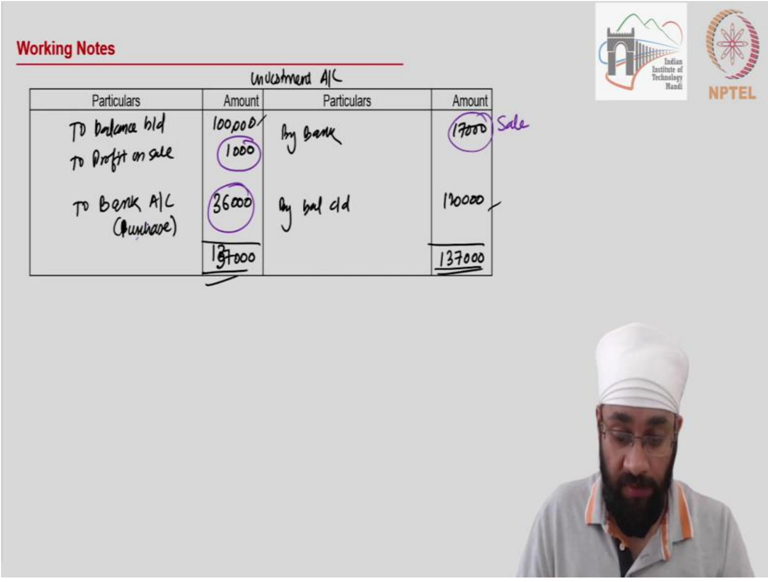

We will go to investment account; there is a sale of investment which is 17,000. So, proceeds from sale of investment 17,000, this is an inflow. And then you have profit on sale which is also non-operating and should not be included in the profit. So, we will deduct this profit on the sale of investment 1000, let me write investments here, 1000 not to be included in the profit.

So, profit on sale of investment and you have a purchase of investment as well 36,000, this is an outflow and investing outflow, 36,000. Purchase of investment 36,000, this is an outflow. And we are done with the investment account as well; everything has been taken to their respective places.

Now, let us go back to the balance sheet. Now, we have some current assets. You have stock; stock is going down, a decrease in current assets is an inflow. We have 60,000 stock going down, an inflow. And then we have debtors; debtors are going up by what amount? By 490,000. So, 490000 increase in debtors, 490000 this is an outflow.

And then you have bank and we do not use this as the current asset, because the purpose of preparing the whole cash flow statement is to explain the reason for changes in this balance. So, ignore this.

Now, let me make sure I have not missed anything else; investment account has been taken care of, provision for tax taken care of, during the year fixed assets sold we have used the amounts. And we have also taken care of the profit made during the year, the dividend paid is 80,000.

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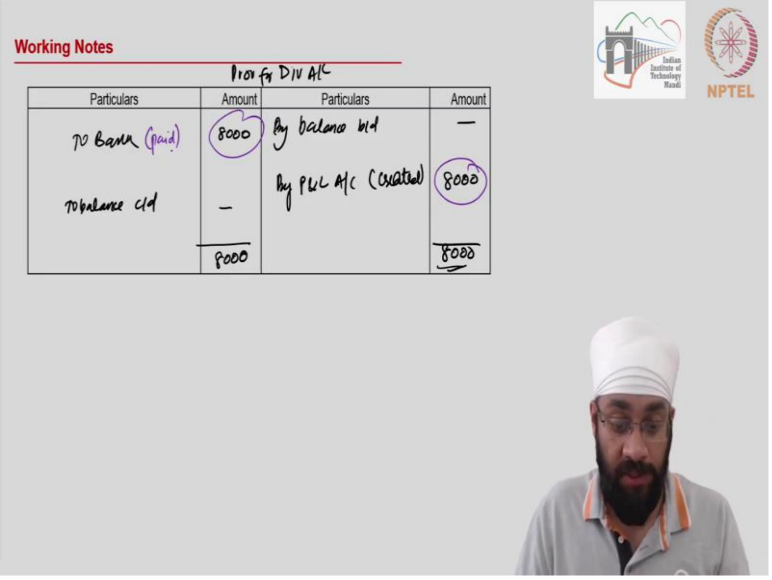

So, there is an account for dividend here, provision for dividend you have provision created this will go to the operating activities provision for dividend here. Provision for tax, provision for dividend here, provision for dividend is 800. 8000 to be added and actual dividend paid is also 8000, which will go to financing activity dividend paid 8000 there you go.

So, from the provision for dividend both these items have been taken to their respective places. So, provision for dividend is also done. So, this is also done other than this we had investment, but sale of investment, this has been taken care of this has been taken care of done.

So, now we have taken care of all the items, all the balances from the balance sheet of the 2 years. And now what we have to do is to do the math, to figure out what the numbers are. So, the operating profit, operating cash profit comes out to be 57,000 this is a net inflow.

And now, this 56,000 can be taken to the next page. I am just writing it here; you do not have to write it twice. And then we can find out the result of the cash flows from operating activities. So, this comes out to be 441,000 and this is an outflow, because we have more negative numbers here. And then we can figure out the sum for the total result of the next section and this comes out to be 5000 and this is net inflow. Let me just double check 31 41 5 yeah makes sense.

So, this is the cash flow from investing activities. And finally, we have cash flows resulting from the financing activities. And this comes out to be 532,000 and this is a positive number that is it. So, we have to now figure out A plus B plus C the net outcome. Now, we have 441,000 which is a negative number and we have 532,000 which is a positive number and an additional 5000. So, let me make it 7000.

This comes out to be 6 and you have 9 here, yeah that is right 96,000 is the net result of A plus B plus C and this number is positive you have 537,000 which is inflows and 441,000 which are outflows. Now, to verify this I will just bring the opening balance opening bank balance. And then, we will add to it to figure out if the closing bank balance is equal to what we see in the balance sheet.

So, the opening bank balance is 298,000 and the closing balance comes out to be 394000. And if you sum these two you will see that. So, this is 14 9 and 3 yeah this works out well. So, the balance sheet showed the opening balance to be 298,000 and closing balance 394,000, which means there was an increase of 96,000 in cash balance in the bank balance during the year.

And through this cash flow statement what we have done is we have explained the reasons for changes in this cash balance. The change is 96000 and there are three reasons; the first reason is 532,000 due to financing activities and inflow. The second reason is 5000 an inflow coming in from investing activities. And the third reason is 441,000 used in the operating activities of the business.

So, as a whole the business of this company in this financial year has lost cash worth 441,000 in the operating activities, made 5000 in the investing activities. And raised more money 532,000, these three are the reasons for the net increase of 96,000 in the bank balance of the company during the year, that is what the cash flow statement tells us. That is it, this is how you prepare a cash flow statement.