

Financial Accounting
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Lecture – 98
7.10 Tutorial - Cash Flows from Investing Activities


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Calculation of Cash Flows from Investing Activities

	Purchased	Sold
Machinery	2,40,000 (Outflow)	45,000 (Inflow)
Investments	2,00,000 (Outflow)	1,20,000 (Inflow)
Goodwill	50,000 (Outflow)	
Copyrights	20,000 (Outflow)	

- An existing machinery was used by research institution on fees basis. An income of Rs 10,000 was received. The machinery is usually used for production process and not to earn income from usage fee. (Inflow) ✓
- Interest on investment @10% of investments purchased during the year. 20,000 (Inflow)
- A previous investment yielded a return of Rs 10,000 (Inflow)





This is a tutorial on Cash Flows from investing activities. We are going to use this information and calculate the cash flows as a result of all these activities. We have been given data about purchases or sale of certain fixed assets, we have machinery investment, goodwill, copyrights some details, some additional details have also been provided. So, using this we will prepare the cash flows from investing activities in this format which we have been using.

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Calculation of Cash Flows from Investing Activities

Add:	Proceeds from sale of fixed assets	Machinery	45000
	Proceeds from sale of investments	Investment	120000
	Proceeds from sale of intangible assets		10000
	Fee for use of FA		30000
	Interest and dividend received		
Less:	✓ Purchase of fixed assets	Machinery	(240000)
	✓ Purchase of investment	Investment	(200000)
	✓ Purchase of intangible assets like goodwill	Goodwill	(50000)
		Copyright	(20000)
	Net cash from (or used in) investing activities (B)		(20500)

- 510
205

Let us read through the details to understand what is happening here. Machinery worth 240,000 has been purchased during the year which means this is an outflow. Also, machinery worth 45,000 has been sold which means this is an inflow. Likewise, all the sales are going to give you inflows and all the purchases are going to result in an outflow. So, we can just directly take these numbers to the cash flow statement and post them there.

Let us look at the other information as well to just figure out what else is happening. An existing machinery was used by a research institution on a fee basis and income of 10,000 was received. So, out of the machinery, you have you rented out to some external party and they use it and they pay you some fee. You did not set up the machinery to earn; the machinery is usually used for production and not to earn. So, you do not regularly use the machinery for such incomes. So, this is kind of an interest income to you, not an operating income. So, 10,000 is an income and let me write it here. This is an inflow as a result of investing activities of the business.

The next point is interest on investment at the rate 10 percent of investments purchased during the year. So, the investments which were purchased during the year is 200,000 and 10 percent of that is going to be 20,000. This is an inflow, an income on the financial investments made during the year.

Another previous investment, not the ones that we purchased, but the previous investment that the company already has, also yielded a return. Yielded means brought to the business,

earned actually. So, this is also an inflow which needs to be sure. So, that is it. We have identified the inflows and outflows. So, all we need to do is to post these amounts in the statement.

Let us put the inflows first. So, machinery and investment 45,000, 120,000, 45,000, 120,000, and these are machinery and the investment here. Then you have inflow from rent usage 10,000, interest and dividend received, we do not have any item here listed at fee. So, fee for use of fixed assets, right. So, this comes out to be 10,000. So, this is done. Then you have interest on investment of 20,000 and another interest of 10,000. So, the total is 30,000 and I am going to write against this number, 30,000 against this line. Then you have outflows; outflows include four outflows 240 and 200000, 240,000 and you have 200000, 50,000 and 20,000; 50,000 and 20,000 and we just need to write the details; machinery investment. This is machinery, this is investment, this is goodwill and this is copyrights.

So, you have a purchase of fixed assets and purchase of investments and actually intangibles as well. So, all three items are covered here. There you go and all these are outflows. So, I am going to put parentheses around all these numbers, all we have to do now is to sum these up; this comes out to be 440, 490, and 510. On the other side we have 130, 160, 205. So, 205 taken from 510 is a 305, the net cash used in investing activities is 305,000. That is how you prepare the cash flows from investing activities.

I will see you in the next video.