

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 09.03.2021

Teacher name – Ajay Kumar Sharma

Cash Flow Statement

Question 6:

Prepare a format of cash flow from operating activities under indirect method.

ANSWER:

The format of cash flow from operating activities under Indirect method is as follows:

Indirect Method		
Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items		***
<i>Add:</i> Non-Cash Expenses and Non-Operating Expenses		
Depreciation	**	
Goodwill	**	
Interest paid	**	
Loss on sale of fixed assets	**	
Foreign exchange	**	**
<i>Less:</i> Non Operating Incomes.		
Dividend received	**	
Profit on sale of fixed assets	**	
Interest received	**	**
Operating profit before working capital changes		***
<i>Add:</i> Decrease in Current Assets	***	
Increase in Current Liabilities	***	***
<i>Less:</i> Increase in Current Assets	***	
Decrease in Current Liabilities	***	***
Cash generated from Operating Activities		***
Income tax paid		***
Cash Flow before Extraordinary Items		***
<i>Add/Less:</i> Extra ordinary Items		***
Net Cash Flow from Operating Activities		***

--	--	--

Note: Preparation of Cash Flow Statement using Direct Method has been excluded from the prescribed syllabus. The format is given since the question has not specified the method explicitly. Students can refer to the direct method for the knowledge purpose.

Question 7:

State clearly what would constitute the operating activities for each of the following of enterprises:

- (i) Hotel
- (ii) Film production house
- (iii) Financial enterprise
- (iv) Media enterprise
- (v) Steel manufacturing unit
- (vi) Software development business unit.

ANSWER:

(i) *Hotels*

1. Receipts from sale of goods to customer.
2. Payment of wages and salaries, electricity, food items and other items used in accommodation.

(ii) *Film Production House:*

1. Receipts from selling film rights of a film to the distributors.
2. Payment to the staff, actors, actresses, directors, etc.

(ii) *Financial Enterprises:*

1. Receipts from repayment of loans, interest incomes from investments, etc.
2. Repayment of loans, recovery expenditure for recover of loans etc, salaries of employees.

(iv) *Media Enterprises:*

1. Receipts from advertisements.
2. Payments to staff, reporters, photographers, etc.

(v) *Steel Manufacturing Unit:*

1. Receipts from sale of steel sheets, steel castings, steel rods, etc.
2. Payment for iron, coal, salaries to staff, etc.

(vi) *Software Development Business Unit:*

1. Receipts from sale of software and renewal of licenses.
2. Payment of salaries to their employees, etc.

Question 8:

“The nature/type of enterprise can change altogether the category into which a particular activity may be classified.” Do you agree? Illustrate your answer.

ANSWER:

Yes, the nature or type of an enterprise can change the category into which a particular activity may be classified. This can be better understood with the help of an example of two firms. One engaged in financial services and the other engaged in manufacturing services. For the firm that is engaged in financial services, interests received or paid are classified under operating activities whereas for the firm that is engaged in manufacturing business, interests paid are classified under financing activities and interest received as investing activities. Therefore, the classification of activities depends on the nature and type of enterprise.
