

1. Identify the transactions as belonging to

- I. Operating Activities,**
- II. Investing Activities,**
- III. Financing Activities and**
- IV. Cash and Cash Equivalents:**

Solution:-

I. Operating activities

- a) Cash sale of Goods :- It is the Operating Activity as it is the principal revenue activity of the business.**
- b) Cash Received against Revenue from Services Rendered:- It is the operating activity as it is the principal revenue activity of the business.**
- c) Cash Purchase of Goods:- It is the operating activity as it is the principal revenue activity of the business.**
- d) Cash paid against Services Taken:- It is the operating activity as it is the principal revenue activity of the business.**
- e) Commission Received: Operation Activity**
- f) Income tax paid: Operating Activity**
- g) Cash received form debtors: Operating Activity**
- h) Cash paid to creditors: Operating Activity**

II. Investing activity

- i) **Patents Purchased:-** It is the Investing activity of the firm, as selling and purchasing assets are the investing activities of the firm.
- j) **Purchase of shares:-**The issue of shares is the financing activity.
- k) **Interest on investments: Investing Activity**

III. Financing activity

- l) **Bank Overdraft –** It is the loan taken to finance the business activities. It considered a financing activity.
- m) **Proceeds from issue of debentures:-** It is a loan raised from the public. It is considered a financing activity.
- n) **Repayment of long-term: Financing Activity.**
- o) **Redemption of Debentures: Financing Activity**
- p) **Interest on Debentures: Financing Activity**
- q) **Income paid on gain (profit) on sale of assets: investing Activity**

IV. Cash and Cash Equivalents

- r) **Marketable Securities:-** marketable securities are cash equivalents that can be readily converted into cash on demand.

2. Classify the following truncation as operating activities for a finance and a non-finance company:

- a) Purchase of shares on a stock exchange
- b) Dividend received on shares
- c) Dividend paid on shares
- d) Loans given
- e) Loans taken
- f) Interest paid on borrowings

Solution:

- a) Purchase of shares on a stock exchange:- Operating for a finance company
- b) Dividend received on shares:- Opening activity for a finance company
- c) Loans given:- Operating activity for finance company
- d) Loans taken:- Operating activity for finance company
- e) Interest paid on borrowings:- Operating activities for finance company

3. State which of the following would result in inflow or outflow or no flow cash and equivalents:

- a) Sale of fixed Assets, Book value 1,00,000 at a profit of 10,000.
- b) Sale of goods against cash.
- c) Purchase of machinery for cash.
- d) Purchase of land and building for 10,00,000 consideration paid by issue of debentures.
- e) Issued fully paid Bonus shares
- f) Cash withdrawn from bank
- g) Payment of interim dividend.

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- a) Inflow
- b) Inflow
- c) Outflow
- d) No flow
- e) No flow
- f) No flow
- g) Outflow

4. For each of the following transactions, calculate the resulting cash flow and state the nature of cash flow, i.e., whether it is operating, investing or financing Activity:

- a) Acquired machinery for 2,50,000 paying 20% by cheque and executing a bond for the balance payable.**
- b) Paid 2,50,000 to acquire shares in informs tech Ltd. and received a dividend of 50,000 after acquisition.**
- c) Sold machinery of original cost of 2,00,000 with an accumulated depreciation of 1,60,000 for 60,000.**

Solution:

- a) $2,50,000 \times 20\% = 50,000$ investing Activity Outflow**
- b) $2,50,000 - 50,000 = 2,00,000$ investing Activity Outflow**
- c) 60,000 Investing inflow**

5. Following is the extract from the balance sheet of Karishma Ltd. as at 31st March, 2023:

Equity and liabilities	31st March 2023 ₹	31st March 2022 ₹
Surplus, i.e., balance in statement of profit % loss	10,00,000	5,00,000
Dividend payable	50,000	-----

Additional information: proposed Dividend for the years ended 31st March, 2022 and 2023 are 4,00,000 and 5,00,000 respectively.

Prepare the note to show net profit before Tax and Extraordinary items.

Calculation of net profit before tax & extraordinary items

Particular	₹
Surplus balance as per statement of profit & loss (10,00,000-15,00,000)	5,00,000
Add dividend paid during the year	4,00,000
Net profit before tax & Extraordinary items	9,00,000