

CHAPTER 4

Funds and Cash Flow Statement

Note: Answers to only half the questions have been provided. It gives you an opportunity to work on the rest problems and discuss about the relevant solutions. You are requested to complete this chapter before attempting the questions.

MULTIPLE CHOICE QUESTIONS

1. (b)
- 2.
3. (a)
- 4.
5. (a)
- 6.
7. (d)
- 8.
9. (c)
- 10.
11. (c)
- 12.
13. (b)
- 14.
15. (d)

EXERCISE

- 1.1 (a) New issue of share capital
(b) New issue of bonds
(c) Sale proceeds of fixed assets
- 1.2 (a)
(b)
(c)
- 1.3 (a) Account payable
(b) Short term loans
(c.) Tax provisions
- 1.4 (a)
(b)
(c)
- 1.5 Application of Funds

1.6

2. (a) Indicate the following transactions in a Funds Flow Statement:
- A. Amount transferred to provision for taxation – (a)
 - B. Collection from debtors –
 - C. Conversion of debentures into preference shares – (c)
 - D. Goods sold on credit –
 - E. Income tax refund – (a)
 - F. Issue of debentures –
 - G. Issue of shares in exchange of fixed assets – (c)
 - H. Long term loan from bank –
 - I. Provision created for depreciation – (a)
 - J. Redemption of debentures –
 - K. Repayment of loan – (b)
 - L. Sale of old machinery –
 - M. Issue of employee stock options – (c)
 - N. Announcement of a Bonus –
 - O. Converting of Employee Stock Options to Equity Shares – (a)
 - P. Payment of Tax –
 - Q. Provision for warranties – (a)
 - R. Announcement of a large cash dividend –
 - S. Redemption to Preference Shares – (b)
 - T. Announcement of an expansion plan –
 - U. Sale of land – (a)
 - V. Merger with sister concern by exchange of shares –
 - W. Purchase of a competitors shares – (b)
 - X. Payment of a VRS package to an employee –
 - Y. Loss of inventory (due to theft) – (b)
 - Z. Discounting of notes receivable and other receivables –

b)

Transactions	Type of Activity	Increase/Decrease/No-effect on Cash
Cash received from customers	_____	_____
Purchased machinery	_____	_____
Paid income tax to government	_____	_____
Purchased a certificate of deposit	_____	_____
Issued equity shares at par	_____	_____

Received cash on maturity of bills receivable	—	—
Cash paid to its suppliers and vendors	—	—
Sold investments at a gain	—	—
Issued debentures in exchange for equipment	—	—
Received interest on short term investment	—	—
Converted debentures into equity shares	—	—
Earned a net profit	—	—
Paid bonus to its employees	—	—
Paid installments for the purchase of inventory	—	—
Repaid bank overdraft	—	—
Retired a plant from use	—	—
Sold patents at a gain	—	—
Received dividend	—	—
Made a down payment for the purchase of furniture	—	—
Paid interest on loans and debts	—	—

3. Mark True or False

- (a) T
- (b)
- (c) T
- (d)
- (e) F
- (f)
- (g) F
- (h)
- (i) F
- (j)
- (k) F
- (l)

(m)T

(n)

4. Indicate the following transactions in a Funds Flow Statement:

	<i>Assets (Change)</i>	<i>Liabilities (Change)</i>
<i>Sources of Funds</i>	–	+
<i>Use of Funds</i>	+	–

Once a particular blank has been filled – the rest will get filled automatically. This matrix can also be remembered as USA Limited.

REVIEW QUESTIONS

- Priyamvada’s Farm: (a) Net cash flow at the end of month is Rs.1,76,677
- Ruks Industries Limited: Net cash flow is Rs.20,000
- Basant Exports Limited: Net Increase/Decrease in Cash is Rs. (2,80,000)
- M/s Little Flower Imports Limited: Net Increase/Decrease in Cash is Rs. 10,000
- Pragati Exports Limited: Pragati Exports is going through a cash crunch of Rs 90,000.