

**ANSWERS KEY**

Q. NO	ANSWER
1	(c)
2	(d)
3	(d)
4	(a)
5	(d)
6	(c)
7	(c)
8	(c)
9	(d)
10	(b)
11	<p>(i) The presentation of purchase of plot in Cash Flow Statement by the accountant of Rainforest Ltd. is not correct, because in this case there is no inflow or outflow of cash in the transaction. In the Cash Flow Statement, only those transactions are presented which affect the cash flows (Cash and Cash Equivalents). However, as per recommendation of AS 3, it should be depicted by way of note.</p> <p>(ii) Advance payment made 2,00,000 for the purchase of capital machinery is to be shown as outflow of cash under Investing Activities because the payment has been made in cash to acquire an asset, i.e., machinery.</p> <p>(iii) Buy-back of shares will be shown as outflow under Financing Activities as an Extraordinary Item as it reduces the share capital.</p>

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## Calculation of Cash flow from Investing and Financing Activities

Particulars	₹	₹
Cash flow from Investing Activities		
Purchase of Tangible Assets	(20,25,000)	
Sale of Tangible Assets	45,000	
Cash used in Investing Activities		(19,80,000)
Cash flow from Financing Activities		
Proceeds from Issue of Share Capital	10,00,000	
Proceeds from Issue of 10% Debenture	9,00,000	
Interest on Debenture paid	(1,25,000)	
Payment of Short term Borrowings (Bank O/D)	(25,000)	
Cash flow from Financing Activities		17,50,000

Working notes:

**Plant and Machinery A/c**

Particulars	₹	Particulars	₹
To Balance b/d	25,00,000	By Accumulated Depreciation A/c	50,000
To Bank A/c (Purchase)(Bal. fig.)	20,25,000	By Bank (Sale)	45,000
		By Statement of P & L (Loss on sale)	30,000
		By Balance c/d	44,00,000
	45,25,000		45,25,000

**Accumulated Depreciation A/c**

Particulars	₹	Particulars	₹
To Plant and Machinery	50,000	By Balance b/d	2,50,000
To Balance c/d	4,00,000	By Statement of P & L (Depr.)(Bal. Fig.)	2,00,000
	4,50,000		4,50,000

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## Statement showing the effect of transactions on Cash or Cash equivalents:

Transaction	Effect on Cash or Cash equivalent	Reason
1 A long-term loan from a bank,	Inflow	Cash is increased.
2. Repayment of long-term loan.	Outflow	Cash is decreased.
3. Payment of interest on loan.	Outflow	Cash is decreased.
4. Conversion of debentures into preference shares.	No effect	Cash is not affected.
5. Interest received on investments.	Inflow	Cash is increased.
6. Interest due on debentures.	No effect	Cash is not affected.
7. Receipt of accrued interest.	Inflow	Cash is increased.
8. Purchase of securities of a company.	Outflow	Cash is Decreased.
9. Buy-back of Equity Shares.	Outflow	Cash is Decreased.
10. Purchase of Goodwill.	Outflow	Cash is Decreased.
11. Goodwill written off.	No effect	Cash is not affected
12. Patents written off.	No effect	Cash is not affected