

Managerial Accounting
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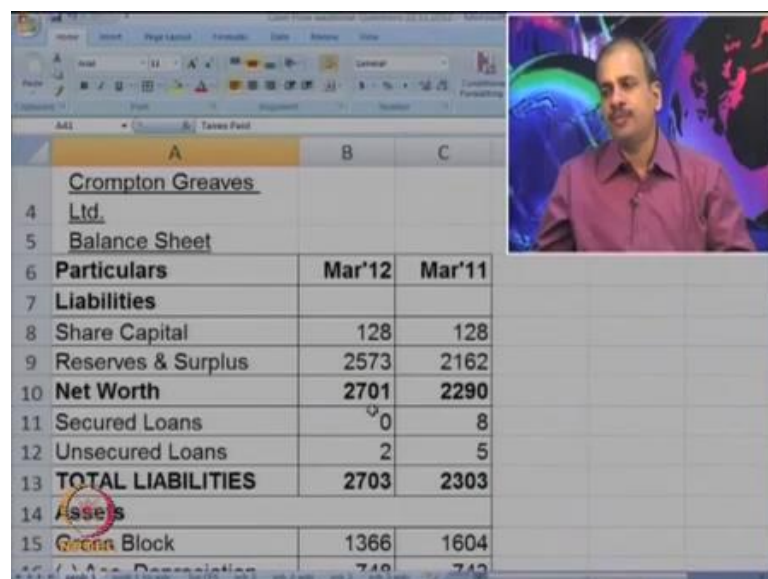
Lecture - 37
Cash Flow Advanced Cases

Dear students in the last session, we were doing a revision of cash flow statement. We have already done cash flow statement. Those who are seeing the video for the first time, I will request you to see the earlier videos, where in cash flow statement has been dealt with in detail. In the last session, we had again done a bit of revision on cash flow and started solving a case on Crompton greaves.

Let us continue with the case, but before that a brief recap. So, what do you understand by cash flow statement, what does that statement give you? It is a statement which shows the flows of cash categorized in to operating, investing and financing flows. Operating flows represent day to day business activities of the concern. Investing are the flows related to fixed asset, investments or receiving of interest, dividends.

Financing flows are the flows related to raising of funds by an entity. So, they represent issue of shares, issue of bonds, taking loan, repaying loan, paying dividend and so on. So, cash flow statement gives all flows of cash categorized in to investing operating investing and financing.

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Particulars	Mar'12	Mar'11
Share Capital	128	128
Reserves & Surplus	2573	2162
Net Worth	2701	2290
Secured Loans	0	8
Unsecured Loans	2	5
TOTAL LIABILITIES	2703	2303
Assets		
Green Block	1366	1604
Depreciation	742	742

With this brief background, let us look at the case carefully. We have done it half a through in the last session. So, I would continue from there, but those who are new were seeing it for the first time, please have a look at the case first. So initially, we were given the balance sheet of Crompton greaves for 2 years. Then some extra information from P and L account. Please read the problem carefully, you can take a print out of the problem from the web course, from the website. And then solve it along with me, so here 2 years data is available. And some extract from P and L is also available.

Now, how to sort solving it? Can you think over how to start solving it? We look at the difference. So, we calculate the difference between the 2 years figures, because usually the difference represents flows. Particularly for the balance sheet items, say for example, unsecured loan is 8 it has become 0. That means, the loan to the tune of 8 crore has been repaid during the year. So that should be mark as flow.

So, we will calculate the difference, what is the step number 2? In step number 2, we will mark the difference as O, I or F. So, we categorized in to operating, investing and financing. We also mark it as in flow or out flow.

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Particulars	Mar'12	Mar'11	OIF	in/out	Cash F
Liabilities					Profit E
Share Capital	128	128	0		Adj:
Reserves & Surplus	2573	2162	411 O	IN	Non-C.
Net Worth	2701	2290	411 XX		Deprec
Secured Loans	0	8	-8 F	OUT	Adj:
Unsecured Loans	2	5	-3 F	OUT	Non-O
TOTAL LIABILITIES	2703	2303	400 XX		Interes
Assets					Adj:
Gross Block	1366	1604	-239 I	IN	Workir
(-) Acc. Depreciation	748	743	5 O	+	Inventc
Net Block	617	861	-244 XX		Sundry

In the last session we are done it in detail. So, let us go to that marking, please see it carefully. So, we started with share capital it was anyway 0, so it was marked as XX. Reserves and surplus was marked as O, because it represents the profits. And it is in flow secured loans minus 8, so marked as F OUT unsecured loans marked as F OUT, OUT

means out flow. So because that repayment of flow of 3 is an out flow for the company, so marked as F OUT. Gross block I IN, because you can see there is sale of acids.

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	A	B	C	D	
9	Net Worth	2701	2290		
10	Secured Loans	0	8		
11	Unsecured Loans	2	5		
12	TOTAL LIABILITIES	2703	2303	400	XX
13	Assets				
14	Gross Block	1366	1604	-239	I IN
15	(-) Acc. Depreciation	748	743	5	O +
16	Net Block	617	861	-244	XX
17	Capital Work in Progress.	58	48	10	I OUT
18	Investments.	1053	782	271	I OUT
19	Inventories	450	406	44	O -
20	Sundry Debtors	1736	1510	225	O -

So, cash must have come in. So, it is marked as I IN. Depreciation was marked as O plus, capital work in progress marked as I OUT. Now, I will not repeat all the markings, please see earlier video, where in we have discussed. Why this marked items, were marked in particular way.

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	A	B	C	D	
27	NET CURRENT ASSETS	975	613		
28	TOTAL ASSETS (A+B+C+D+E)	2703	2303	400	XX
29					
30	Sales Turnover	6934	6411	523	XX
31	Excise Duty	366	325	41	XX
32	NET SALES	6568	6086	482	XX
33					
34	Manufacturing Expenses	244	281	-37	XX
35	Material Consumed	4714	4027	688	XX
36	Personnel Expenses	364	310	53	XX
37	Selling Expenses	0	212	212	XX

If you look at P and L items most of the items are marked as XX. Now, why they are marked as XX? Because, they do not actually get reflected in cash flow statement. I am not saying that they are not flows. For example, when the sales turn over happened, company would have receive cash or when the manufacture expenses are paid, company would have paid cash.

But, under operating items, we directly take profit, we do not take each item individually. That is why for convenience they have been marked as XX. So keep in mind for operating items, we follow an indirect method. One more thing for this P and L items, that difference is not important, the current year figure is important.

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	F	G	H	I	Working
4		Particulars	Rs.	Rs.	
5	in/out	Cash From Operating Activities			Profit Be
6		Profit Before Tax	643		Increase
7		Adj:			Add: Divi
8	IN	Non-Cash Items			Add: Tax
9		Depreciation	5		PBT
10	OUT	Adj:			
11	OUT	Non-Operating Items			
12		Interest received	-28		
13		Adj:			
14	IN	Working Capital Items			
15		Inventories	-43		

Now, let us go to the next stage now, with having marked all the items in to O I F and ((Refer Time: 05:47)). We go for preparation of cash flow statement. This is the format for cash flow statement. It is start with operating activities, the first item is profit before tax. Then, adjust for non-cash items, adjust for non-operating items, adjust for working capital items.

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	F	G	H	I
9		Depreciation	5	PBT
10	OUT	Adj:		
11	OUT	Non-Operating Items		
12		Interest received	-28	
13		Adj:		
14	IN	Working Capital Items		
15	+	Inventories	-43	
16		Sundry Debtors	-225	
17	OUT	Loans And Advances	251	
18	OUT	Current Liabilities	83	
19	-	Provisions	-257	429
20				

The total gives you the total cash from operating activities. Up till this, we have done in the last sum, now to calculate PBT. We have not given directly the amount of PBT. So, we had to make working note.

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	Rs.	Rs.	Working Note:
3			ended 31.03.2012
4			Profit Before Tax
5			
6	643		Increase in Reserves 411
7			Add: Dividend Paid 90
8			Add: Tax paid 142
9	5		PBT 643

So, have look at working note for calculation of PBT, which started with increase in reserves. Then add tax, add dividend gives us PBT. So, PBT was 643, then we adjusted for non cash item that is depreciation which is 5. Then, we added we went to non

operating items. We have only one non-operating item, that is interest receives. And it is marked as minus 28, then adjust for working capital items.

So, each of the current assets and liabilities should be marked inventories, it is minus 43, sundry debtors minus 225. Loans and advances it is plus 251, why it is a plus figure? You will realize that inventories have increased. So, increase in inventories is a out flow for the concern. It has a negative effect on out flow; I do not mean that actually when the inventory increases the cash goes down. These are the year and figures.

But, during the year, because the inventories have increased they have let to negative impact on operating flows. So, it is marked has minus 43, I will specify it for more clarity. So, we have increased in inventories, which is minus 43. Then, increase in sundry debtors, which is minus 225.

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	D	E	F	G	H
17	10 I		OUT	Decrease in Loans And Advances	251
18	271 I		OUT	Increase in Current Liabilities	83
19	44 O		-	Decrease in Provisions	-257
20	225 O		-	Cash From Operating Activities	
21	170 C				
22	-251 O		+	Cash From Investing Activities	
23	188 XX			Sale of Fixed Assets	239
24	83 O		+	Increase in Capital Work in Progress.	-10
25	-257 O		-	Increase in Investments	-271
26	174 XX				

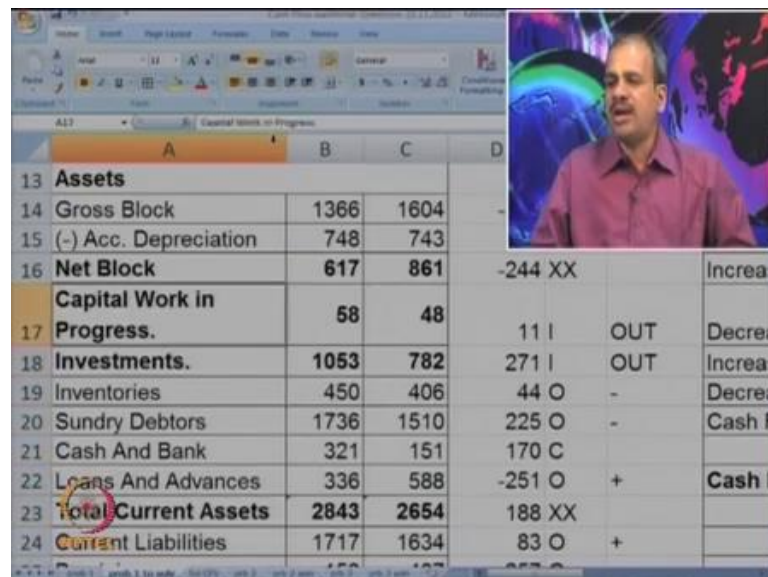
But, when it comes to loans and advances, you will realize that there is a decrease in loans and advance, so it is plus 251. I am going little slow, because many times in operating flows, there is a confusion. Investing and financing, you will find it very much state forward. Next is current liabilities, if you go to balance sheet you will realize that current liability is have actually one up.

So, increase in current liabilities represents also increase in cash. Now, why is it so? Increase in current liabilities, why does it represent increase in cash? The fact that there

are current liabilities means we have paid lesser cash. So, an increase in current liabilities means the availability of the cash at the end of the year will increase that is why it is a plus item? In case of provisions, you will realize that there is a decrease in provisions.

So, it is very similar to current liability at decrease in provision will improve the cash availability. So, the increase in provision will improve the availability in this case the provisions have gone down. So, company has paid more money, so it is minus 251. Now using all this information, we have got the total of cash from operating activities. It is clear to all please solve it with me, so that the things become more apparent to you.

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	A	B	C	D	E	F	G
13 Assets							
14 Gross Block		1366	1604				
15 (-) Acc. Depreciation		748	743				
16 Net Block		617	861	-244	XX		Increase
17 Capital Work in Progress.		58	48	11	I	OUT	Decrease
18 Investments.		1053	782	271	I	OUT	Increase
19 Inventories		450	406	44	O	-	Decrease
20 Sundry Debtors		1736	1510	225	O	-	Cash F
21 Cash And Bank		321	151	170	C		
22 Loans And Advances		336	588	-251	O	+	Cash F
23 Total Current Assets		2843	2654	188	XX		
24 Current Liabilities		1717	1634	83	O	+	

Now, what is a next heading, after cash from operating activities? The next heading represents cash from investing activities. Now, we have already marked in the balance sheet what some items has I. So, have a look at balance sheet, (Refer Slide Time: 04:27) look at which items are I items. You will see that mostly the asset items are marked as I.

So here, you have a gross block which is marked as I should we take the current year's figure or the difference that is 1366 should be take or 259 we should take. You should not take this year's figure for all balance sheet items the difference is important.

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	E	F	G	
13			Adj:	
14	I	IN	Working Capital Items	
15	O	+	Increase in Inventories	
16	XX		Increase in Sundry Debtors	-225
17	I	OUT	Decrease in Loans And Advances	251
18	I	OUT	Increase in Current Liabilities	83
19	O	-	Decrease in Provisions	-257
20	O	-	Cash From Operating Activities	429
21	C			
22	O	+	Cash From Investing Activities	
23	XX		Gross Block	239
24	C	+		

So, we will take 239, let us take each item. So gross block is 239, you will find that the gross block has gone down or there is a sale of fixed assets.

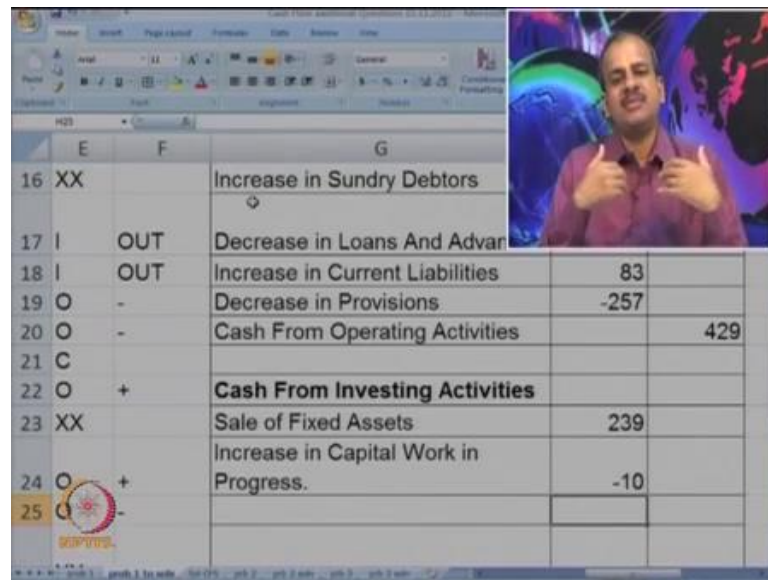
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	E	F	G	
13			Adj:	
14	I	IN	Working Capital Items	
15	O	+	Increase in Inventories	
16	XX		Increase in Sundry Debtors	-225
17	I	OUT	Decrease in Loans And Advances	251
18	I	OUT	Increase in Current Liabilities	83
19	O	-	Decrease in Provisions	-257
20	O	-	Cash From Operating Activities	429
21	C			
22	O	+	Cash From Investing Activities	
23	XX		Sale of Fixed Assets	239
24	C	+		

Now, this sale of fixed assets is it in flow or out flow this is an IN flow. So, I have marked it as 2 plus 239. (Refer Slide Time: 10:16) Now, next item marked as I is capital

work in progress you can see the capital work in progress has increased from 48 to 58. So, there is difference of actually it should be 10. There is rounding error, I have marked it has 10 now.

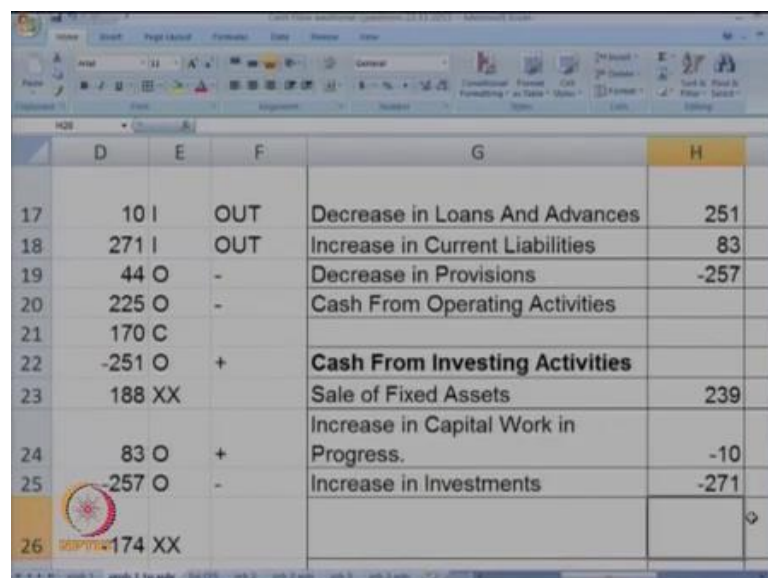
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	E	F	G	
16	XX		Increase in Sundry Debtors	
17	I	OUT	Decrease in Loans And Advan	
18	I	OUT	Increase in Current Liabilities	83
19	O	-	Decrease in Provisions	-257
20	O	-	Cash From Operating Activities	429
21	C			
22	O	+	Cash From Investing Activities	
23	XX		Sale of Fixed Assets	239
24	O	+	Increase in Capital Work in Progress.	-10
25				

So, there is a increase in capital work in progress 10 should it be plus or minus it is a negative item, because any increase as means the cash has been paid out. So, it is a negative item. Next item which is of I category is investments. You can see there is a increase in investments.

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	D	E	F	G	H
17	10	I	OUT	Decrease in Loans And Advances	251
18	271	I	OUT	Increase in Current Liabilities	83
19	44	O	-	Decrease in Provisions	-257
20	225	O	-	Cash From Operating Activities	
21	170	C			
22	-251	O	+	Cash From Investing Activities	
23	188	XX		Sale of Fixed Assets	239
24	83	O	+	Increase in Capital Work in Progress.	-10
25	-257	O	-	Increase in Investments	-271
26	174	XX			

Increases in investment are to the tune of 271 minus 271 it is represents an out flow. (Refer Slide Time: 10:16) Any other I item is there you can see I items in the balance sheet or over. But, down below there is a item interest received.

(Refer Slide Time: 12:50)

	A	B	C	D	E	F
30	Sales Turnover	6934	6411	523	XX	
31	Excise Duty	366	325	41	XX	
32	NET SALES	6568	6086	482	XX	
33						
34	Manufacturing Expenses	244	281	-37	XX	
35	Material Consumed	4714	4027	688	XX	
36	Personal Expenses	364	310	53	XX	
37	Selling Expenses	0	313	-313	XX	
38	Interest received	28	21	7	I O	IN
39	Interim Equity Dividend	90	141	-51	F O	OUT
40	Taxes Paid	172	233	-61	O O	OUT
41						
42						
43						
44						
45						
46						
47						

So, you have 28 21 difference 7, we have marked it has I O. So, it is an I item how much I should take here should I take 28 or 7. I should basically take this year's figure that is 28 and the interest is received. So, it is an IN flow.

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	F	G	H	I
19	-	Decrease in Provisions	-257	
20	-	Cash From Operating Activities		429
21				
22	+	Cash From Investing Activities		
23		Sale of Fixed Assets	239	
24	+	Increase in Capital Work in Progress.	-10	
25	-	Increase in Investments	-271	
26		Interest received	28	
27		Cash From Investing Activities		-14

So, I will mark it as interest received as IN flow 28 it is a plus item. (Refer Slide Time: 02:00) So, go back to P AND L and balance sheet. Now, is any I item remaining have a look at all the items. You will realize that all items are over. So, we can sum now of cash from investing activities. So, how much amount you are getting now, try to do it with me . So, it is minus 14 are you with me.

You will see that in case of investing activity is we follow a direct method. So, it is very easy to understand that the fixed assets have been sold, we have received money. So, we have marked it has 239. Working capital has increased investment has increased we have paid money. So, it is minus 10 minus 239 interest is received. So, company has received money. So, it is plus 28.

So, actually investing and financing items very easy to do. (Refer Slide Time: 05:50) Operating there was a problem, because we followed indirect method we started with tax made some adjustments, so keep this in mind. That operating must be done by indirect method for investing and financing its very simple, you can directly mark the items under those categories now the third category.

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	F	G	H	I
25	-	Increase in Investments	-271	
26		Interest received	28	
27		Cash From Investing Activities		-14
28				
29		Cash From Financing Activities		
30		Secured Loans	-8	
31		Unsecured Loans	-3	
32		Interim Equity Dividend Paid	-90	
33		Cash From Financing Activities		-101
34				
35				
36				

So, what is the third category? Third category is cash from financing activities. (Refer Slide Time: 03:40) Again go to P AND L and balance sheet have a look at all the items see which items were marked has F. You will see that from liabilities we have two items

secured and unsecured loan 8 and 3, the loans were repaid. So, they represent an out flow minus 8 minus 3, because it represents out flow.

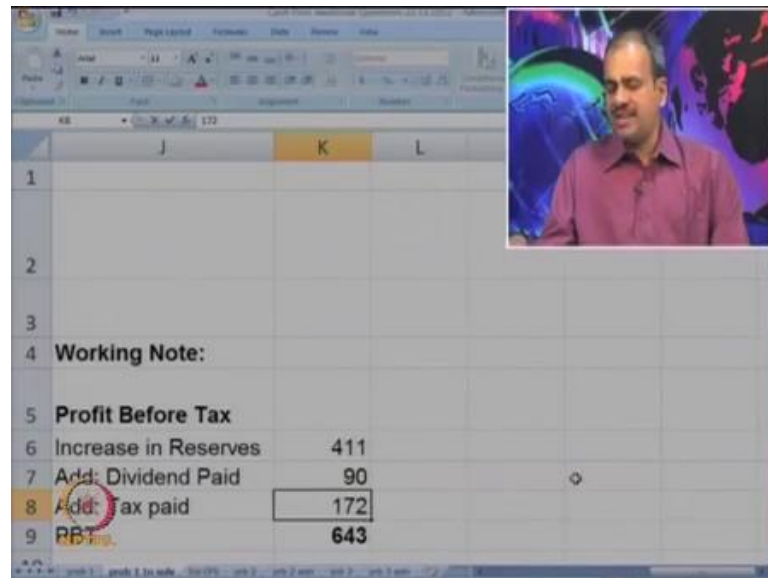
(Refer Slide Time: 12:50) Is there any other item marked as F throughout just see it carefully. You will realize that second last item interim equity dividend was marked as F. So, the dividend has been paid. So, basically it is an out flow shall I take 90 141 or 51. I will only take 90, the current year's figure. So, interim equity dividend I add a paid for more clarity and this is also minus 90, it is not plus 90. So, this is the total of cash from financing activities.

So you can see, we have taken three activities operating investing and financing. Have we left any item have a look at P and L and balance sheet systematically. I think one of the items is left out. Just I would like you to tell me what it which item is left out. (Refer Slide Time: 02:00) Look at everything carefully, you will observe if you look at the P and L and balance sheet. You will realize that all items in balance sheet have only one effect. They were marked as O F I and so on.

Just check whether everything has been accounted. So, we have taken loans, we have also taken gross block depreciation capital WIP investment inventories debtors. Cash and bank we have not taken, because that is to be taken subsequently. Then, loans and advances, current liabilities, provisions mind well every item had only one effect. P and L most of the items were XX.

But the few items which were there have two effects. So, interest received was taken as I O, since interest is received its an investing IN flow, but it was reduced from PBT. Interim equity dividend it is a financing out flow, but it is added for calculation of PBT. Tax paid is a unique item it is 0 0. So, it is added for calculating PBT and it should be also shown specifically as reduced for the amount of tax which is paid.

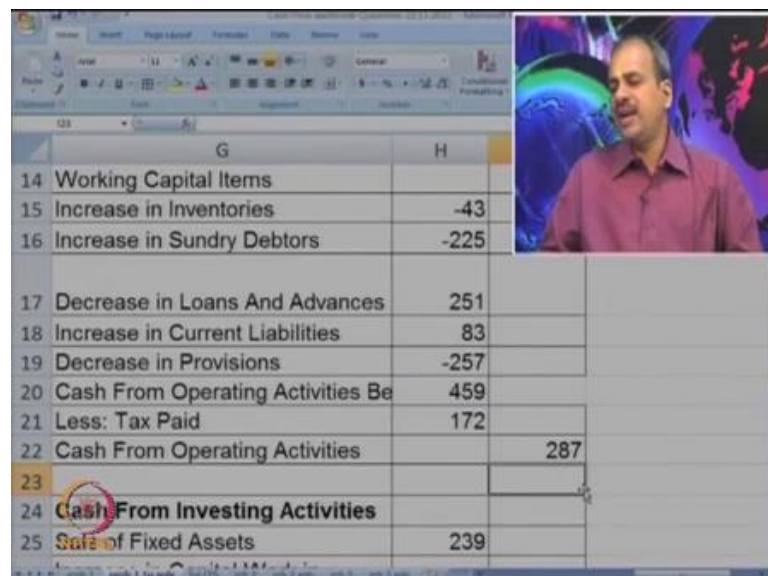
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4	Working Note:	
5	Profit Before Tax	
6	Increase in Reserves	411
7	Add: Dividend Paid	90
8	Add: Tax paid	172
9	PBT	643

So that aspect, we have left out we have yet to discuss. So, current year's tax of 172, you can see once we added it. I wrongly taken 142, you can see it is 172 actually. You can look at the P and L, the amount are 172 to 233. So, 233 is for last year, we should take 172 of this year. So, where will you show this 172 in the cash flow statement? It was marked as O O. Because, it is a operating item once it is added to calculate PBT. It is deducted after all operating flows are calculated.

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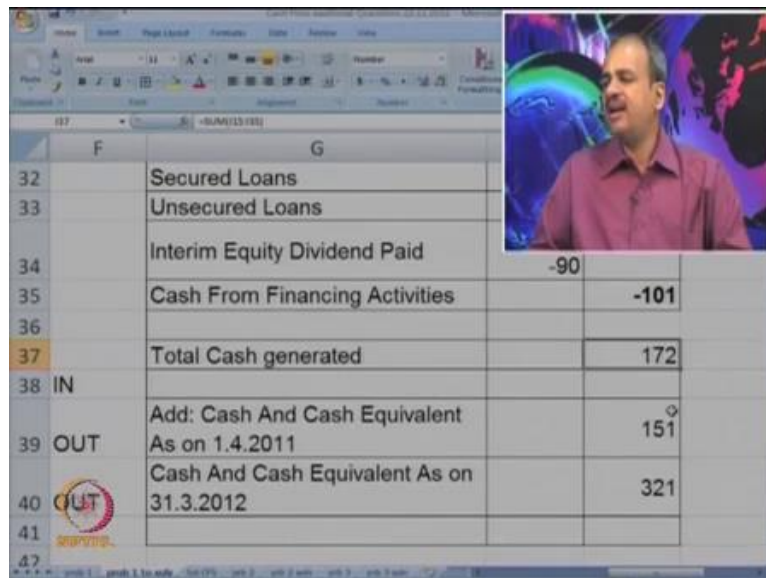
14	Working Capital Items	
15	Increase in Inventories	-43
16	Increase in Sundry Debtors	-225
17	Decrease in Loans And Advances	251
18	Increase in Current Liabilities	83
19	Decrease in Provisions	-257
20	Cash From Operating Activities Be	459
21	Less: Tax Paid	172
22	Cash From Operating Activities	287
23		
24	Cash From Investing Activities	
25	Sale of Fixed Assets	239

That is something we have not yet done. So, we need do it I insert few columns, few rows I am sorry those if you are doing in pen and paper you cannot insert it really. So, we need two more lines, we have already calculated cash flow from operating activities. But, it is not correct calculation is in a sense that this is before considering the tax. So, I will just qualify it cash flow from operating activities, but before tax.

Now from these, I need to deduct tax paid. The tax paid is 172 and after that I get the final cash flow from operating activities. So, it is not 459, it is 459 minus 172. So, you we get 287 as the final cash flow from operating activities. So, we have started with operating activities, we have gone by indirect method. So, we started with PBT, then made all the three adjustments gives the tax. So, we got 287.

Next were investing activities the sum is minus for 14. Then, we went to financing activities the sum comes to minus 201. Now, we have all the three activities already recorded.

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	F	G	
32		Secured Loans	
33		Unsecured Loans	
34		Interim Equity Dividend Paid	-90
35		Cash From Financing Activities	-101
36			
37		Total Cash generated	172
38	IN		
39	OUT	Add: Cash And Cash Equivalent As on 1.4.2011	151
40	OUT	Cash And Cash Equivalent As on 31.3.2012	321
41			
42			

So, let us take the sum the total the amount of the activities. So, we have three flows which if you some of you will get 172. So, this is the total cash generated. Now, how do we cross check, whether it is correct? Go back to cash and cash equivalent which was categorized as C items you will see that we have opening cash of 151 and closing cash of 321. So, there is a increase of 170 this increase is basically being explained by making a cash flow statement.

So, we add opening and closing cash equivalent and so that all differences have been properly explained. So now, to this cash generated you add the opening cash and cash equivalent. This is cash and cash equivalent as on the big as at the beginning of the year. So as an 1,42, we basically had 151 in the beginning. And at the end, we should come to cash and cash equivalent as on 31 12 sorry 31 march 2012.

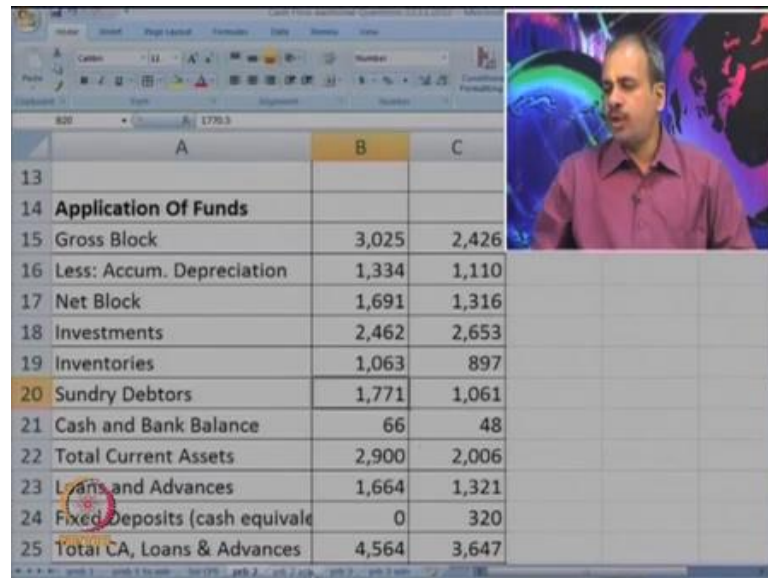
So, you will realize that we are getting the differences as required. There is a difference of 1 or 2 rupees that is basically because of rounding error. But otherwise, 172 plus 151 we will get the closing cash equivalent as 321 is it clear to all any doubts.

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	Rs. Crore	
	Mar '11	Mar '10
Sources Of Funds		
Total Share Capital	85	84
Equity Share Capital	85	84
Reserves	5935	5830
Secured Loans	1	1
Unsecured Loans	1444	562
Total	7465	6478
Application Of Funds		

So, we will go to the next case now. Once again I will advise you to solve it with me that will make the things easier for you now this is a problem of doctor Reddys laboratories. Now, this is the second case for doctor Reddys laboratories comparatively it is very easy case then the one which we did just now on Crompton greaves those of you had some doubts I hope they will find this problem easier.

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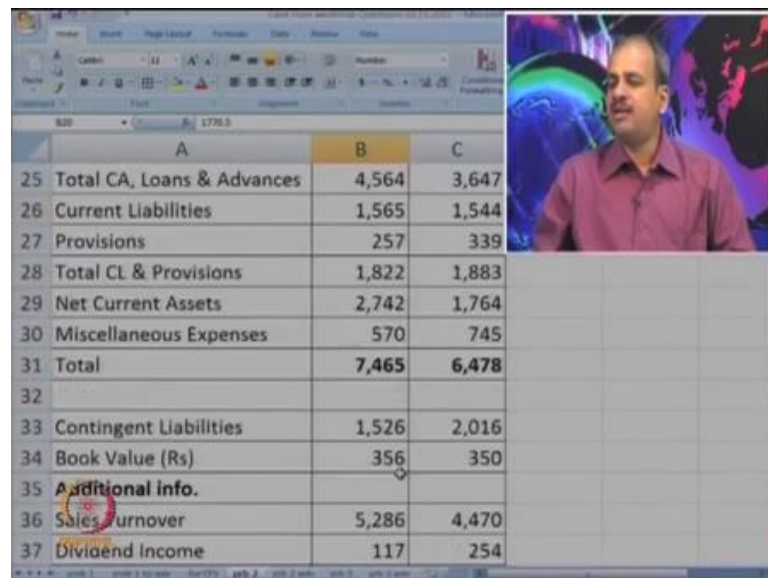


The screenshot shows a presentation slide with a financial table and a speaker in the top right corner. The table is titled 'Application Of Funds' and compares two periods across three columns (A, B, and C). The rows list various assets and their values.

	A	B	C
13			
14	Application Of Funds		
15	Gross Block	3,025	2,426
16	Less: Accum. Depreciation	1,334	1,110
17	Net Block	1,691	1,316
18	Investments	2,462	2,653
19	Inventories	1,063	897
20	Sundry Debtors	1,771	1,061
21	Cash and Bank Balance	66	48
22	Total Current Assets	2,900	2,006
23	Loans and Advances	1,664	1,321
24	Fixed Deposits (cash equivalent)	0	320
25	Total CA, Loans & Advances	4,564	3,647

Please have a relook at the case systemically. We are given two years data for march 10 and march 11 from their P and L.

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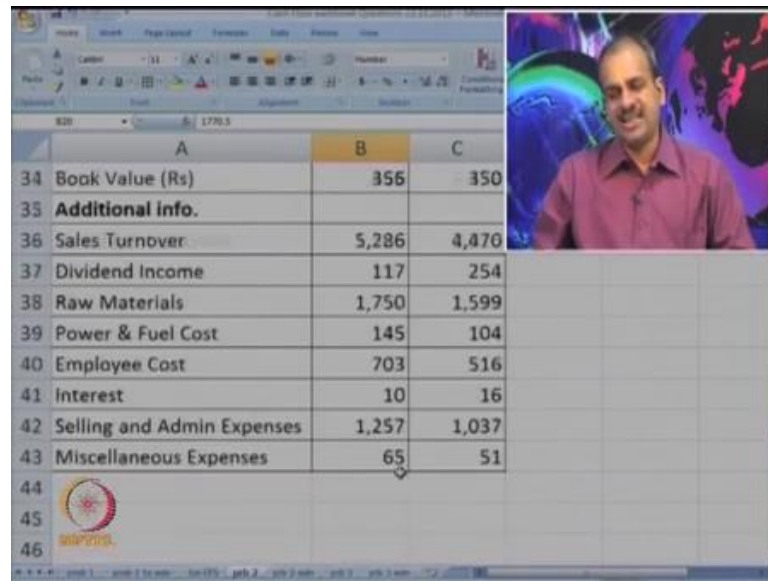


The screenshot shows a presentation slide with a financial table and a speaker in the top right corner. The table continues from the previous slide, listing liabilities and additional information for two periods across three columns (A, B, and C).

	A	B	C
25	Total CA, Loans & Advances	4,564	3,647
26	Current Liabilities	1,565	1,544
27	Provisions	257	339
28	Total CL & Provisions	1,822	1,883
29	Net Current Assets	2,742	1,764
30	Miscellaneous Expenses	570	745
31	Total	7,465	6,478
32			
33	Contingent Liabilities	1,526	2,016
34	Book Value (Rs)	356	350
35	Additional info.		
36	Sales Turnover	5,286	4,470
37	Dividend Income	117	254

And also from their balance sheet.

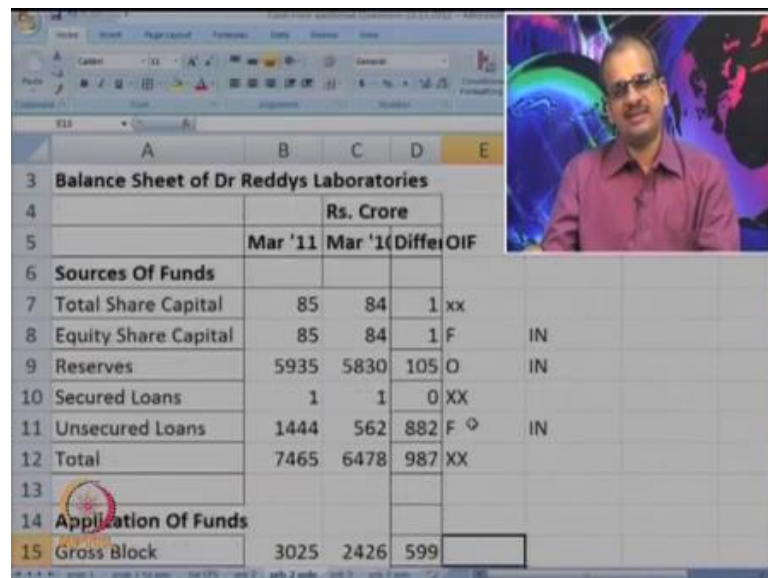
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	A	B	C
34 Book Value (Rs)		356	350
35 Additional info.			
36 Sales Turnover		5,286	4,476
37 Dividend Income		117	254
38 Raw Materials		1,750	1,599
39 Power & Fuel Cost		145	104
40 Employee Cost		703	516
41 Interest		10	16
42 Selling and Admin Expenses		1,257	1,037
43 Miscellaneous Expenses		65	51
44			
45			
46			

Of course from balance sheet the whole balance sheet is available P and L only some extract is available.

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Balance Sheet of Dr Reddys Laboratories				
	Rs. Crore			
	Mar '11	Mar '11	(Difference)	OIF
6 Sources Of Funds				
7 Total Share Capital	85	84	1	xx
8 Equity Share Capital	85	84	1	F IN
9 Reserves	5935	5830	105	O IN
10 Secured Loans	1	1	0	XX
11 Unsecured Loans	1444	562	882	F IN
12 Total	7465	6478	987	XX
13				
14 Application Of Funds				
15 Gross Block	3025	2426	599	

Now, how to solve this problem? We are asked to prepare a cash flow statement. The first step is we need find the difference. I hope all of you remember in the sum, we have done it. So, first is try to find the difference between the two. I have done it already, what is step number 2. Mark each of the item as O I or F and also as IN or OUT. IN OUT, because it can be either in flow or it can be or out flow.

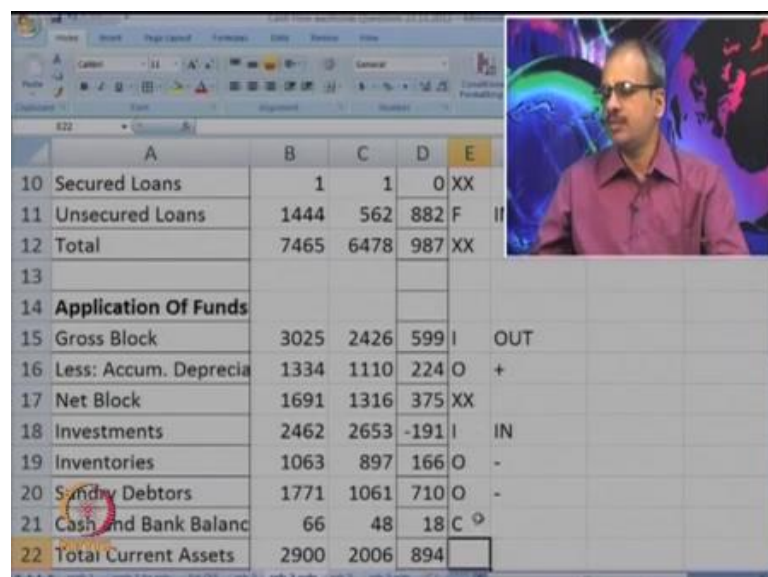
So let us, start with the first item that is share capital should it come as in flow or out flow should it be marked as O I F. Actually, it is XX, because we are going to look at equity and preference share capital separately. So, we need not considered to a total share capital. But, we will look at equity share capital. It will fall in which category among O I F. It will be recorded as F, it is a financing item. You can see the total capital as increase from 84 to 85.

So, increase of one it is a financing item. So, it is F is it IN or OUT it is an inflow. Company will receive money they will issue shares they will receive money. First item total share capital also you can mark it as F and IN. But, do not mark both the items. Since, we are going to mark equity share capital. We have not mark total share capital.

Next is reserves and surplus in which category will it fall O I F. It is O, because reserves represents profits. So, the fact that the reserves have increased means the profits are earned, so mark it as O. In general I can mark it as in flow basically I will uses it for calculating PBT. Secured loans you can see there is no change. So, we will just ignore it mark it as XX. If there was change, it would have been which category it would have been F unsecured loans.

You can see have gone up from 562 to 1444. So, there is a increase of unsecured loan, we will mark it as F and it is in company has taken new loans. So, it f in the total ignore it XX.

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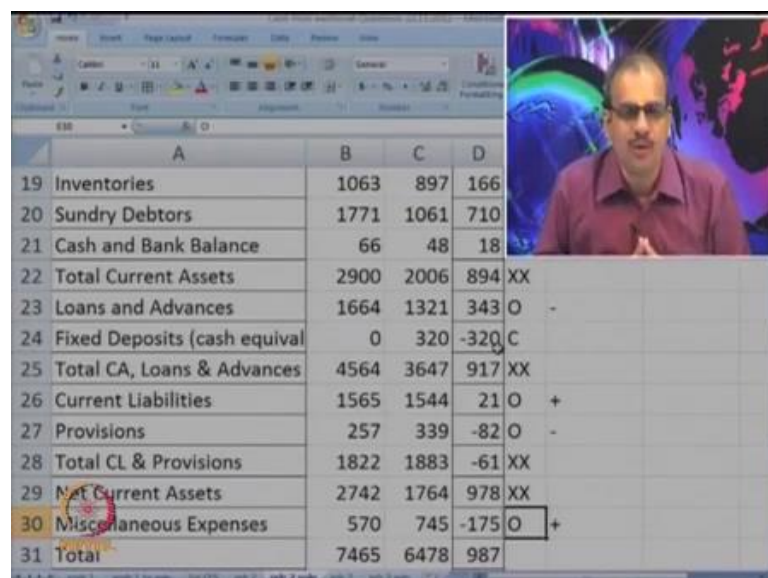
	A	B	C	D	E
10 Secured Loans		1	1	0	XX
11 Unsecured Loans		1444	562	882	F
12 Total		7465	6478	987	XX
13					
14 Application Of Funds					
15 Gross Block		3025	2426	599	I OUT
16 Less: Accum. Deprecia		1334	1110	224	O +
17 Net Block		1691	1316	375	XX
18 Investments		2462	2653	-191	I IN
19 Inventories		1063	897	166	O -
20 Sundry Debtors		1771	1061	710	O -
21 Cash and Bank Balanc		66	48	18	C
22 Total Current Assets		2900	2006	894	

Gross block now, we go to applications of funds we have already considered all sources of funds. Now let us, go to applications of funds the first item is gross block means fixed assets at cost. So, it should come in which category O I F, it should I it represents an investing item. You can see the gross block as increased from 24 to 62 3025. So, is it an inflow or out flow. Increase in the gross block happens, because we have paid cash to buy new furniture or machinery or plant and equipment. So, it is an out flow.

Next is accumulated depreciation, it is an O item. We would mark it as plus, because it is added for calculating operating flows. Net block just ignore it, investments it is I as the name suggests. These are investments have gone down. So, it is an inflow or out flow it is an inflow. Company has received money by sale of investments inventories. It is O item inventories have increased. So, they will have negative impact. So, we are marking it as minus.

Since operating items are not in the direct method. You may not call them in out if you want you can call them. But, I find it convenient if we mark them as plus or minus. So, plus represents addition to the cash flow minus represents reduction of the cash flow. So, it is marked as plus or minus inventory. Since inventory as gone up it is minus sundry data's same way they have gone up. So, it is again O minus cash and bank balance that as also gone up. So, is it O minus no...

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	A	B	C	D
19 Inventories	1063	897	166	
20 Sundry Debtors	1771	1061	710	
21 Cash and Bank Balance	66	48	18	
22 Total Current Assets	2900	2006	894	XX
23 Loans and Advances	1664	1321	343	O -
24 Fixed Deposits (cash equival	0	320	-320	C
25 Total CA, Loans & Advances	4564	3647	917	XX
26 Current Liabilities	1565	1544	21	O +
27 Provisions	257	339	-82	O -
28 Total CL & Provisions	1822	1883	-61	XX
29 Net Current Assets	2742	1764	978	XX
30 Miscellaneous Expenses	570	745	-175	O +
31 Total	7465	6478	987	

Just mark it as C it is not a flow it represents the balance of cash. Total current assets XX, we have considered individual items. Loans and advances, where should it come loans and advances, again it is O you can see the loans and advances have gone up. So, it is very similar to debtors. So, it is operating item and actually it has gone up. So, it has negative impact on cash. So, O minus fixed deposits.

You can see carefully it is given in the problem that this fixed deposits are cash equivalent. So, what to do in such cases? Since they are cash equivalent you should mark them as C. If cash equivalent word would not have been there what will we do if they just give fixed deposit, what will you do? Normally, fixed deposits can be treated as an investment. So, you can mark it as I if it is short term fixed deposit you can treat it as a current asset.

In this case, it is given fixed deposit cash equivalent. So, we treat as cash equivalent and mark it as C is it clear. Now, total current assets loans and advances XX, we need not considered it. Current liabilities, how will we considered again it is O item. Now, the liabilities have increased. So, what will be the impact on cash? It is plus. You can see what happens is? The liabilities as increase means company has paid lesser amount; that means, the availability of cash will go up.

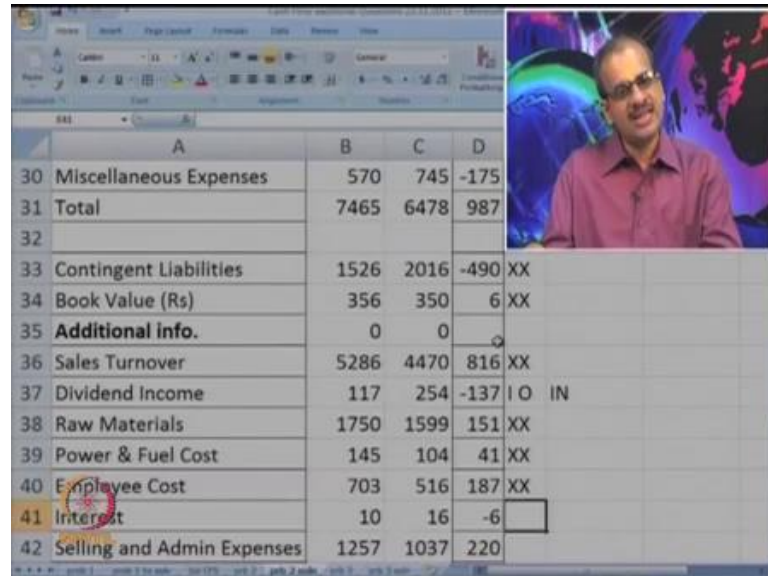
So, it is O plus it is exactly opposite of current asset. So, something like a inventories we put O minus, now we are putting O plus. Provisions you can see provisions have gone down. So, it is O minus, because decrease in the provision means more cash has been paid. So, it has become O minus. Total current liabilities and provisions I have marked it as XX, because that is a total net current assets. Yes again XX, because it is general item.

Now, miscellaneous expenses a very peculiar item, where will you take it? You can see miscellaneous expenses have gone down from 745 to 570. This is a very tricky item, where should I mark it is it O I or F it should be marked as O. So, what has happened is these were some losses which were not return of earlier. So in last year, the balance was 745 now it has been return of and it has come down to 570. So, it is just like provision for depreciation.

As we are writing of our fixed assets we are writing of these losses which are called as miscellaneous expenses. Now, the balance has gone down. So, similar to depreciation I will add it for calculation of cash from operations. I do not mean that I have received

cash, since we follow indirect method in O it needs to be added to PBT, because it has been provided for when the PBT was calculated. So, it is O plus.

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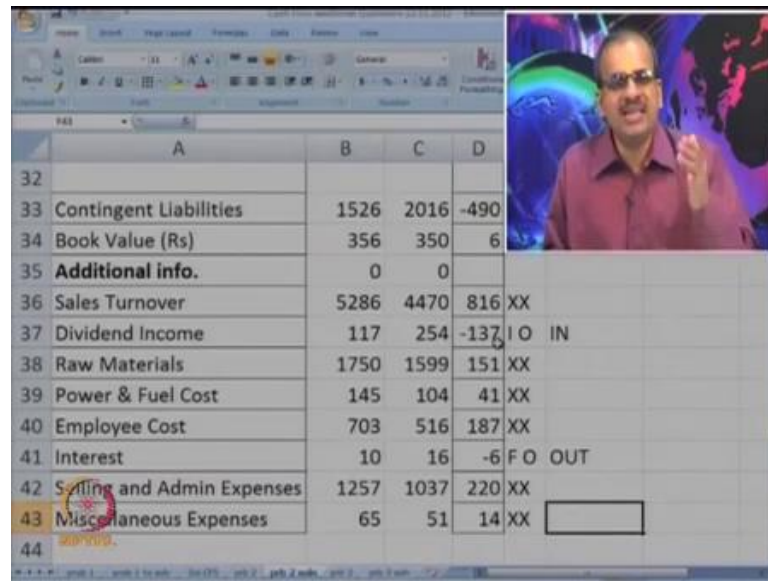


	A	B	C	D	
30	Miscellaneous Expenses	570	745	-175	
31	Total	7465	6478	987	
32					
33	Contingent Liabilities	1526	2016	-490	XX
34	Book Value (Rs)	356	350	6	XX
35	Additional info.	0	0		
36	Sales Turnover	5286	4470	816	XX
37	Dividend Income	117	254	-137	I O IN
38	Raw Materials	1750	1599	151	XX
39	Power & Fuel Cost	145	104	41	XX
40	Employee Cost	703	516	187	XX
41	Interest	10	16	-6	
42	Selling and Admin Expenses	1257	1037	220	

Now, they have given contingent liabilities here, you can see contingent liabilities are gone down. So, it should be marked as nothing it is XX, it is just of balance sheet item it is not a part of any cash inflow or out flow it is only a disclosure made. So, mark it as XX. Book value again an extra disclosure, we do not need it right now. So, mark it as XX. Sales turn over XX ignore it, because we go by indirect method for operating flows. So, ignore sales turn over.

Dividend income shall I mark it XX again no. Because, dividend income is a income on investing activities or the investment made it should be marked as I. It will also have an impact on O, because it comes in P and L. So, please mark it as I O is it an inflow or out flow. Since it an income it is an inflow.

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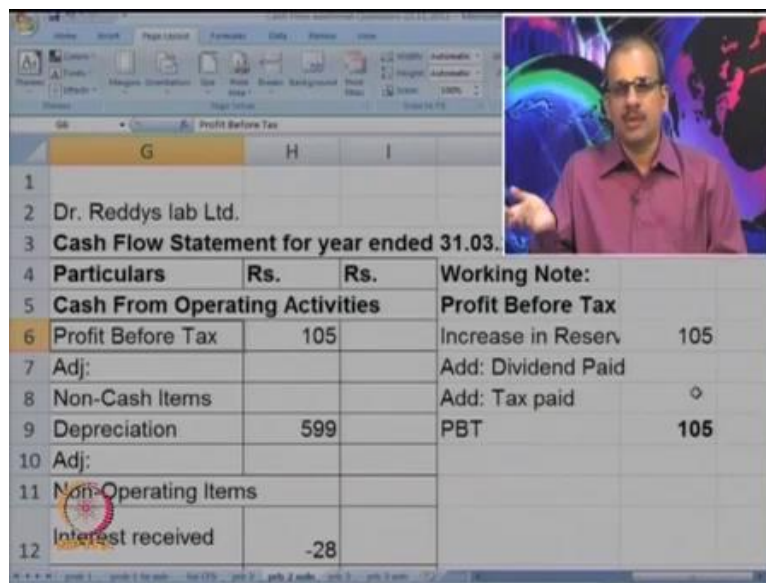
	A	B	C	D
32				
33	Contingent Liabilities	1526	2016	-490
34	Book Value (Rs)	356	350	6
35	Additional info.	0	0	
36	Sales Turnover	5286	4470	816 XX
37	Dividend Income	117	254	-137 I O IN
38	Raw Materials	1750	1599	151 XX
39	Power & Fuel Cost	145	104	41 XX
40	Employee Cost	703	516	187 XX
41	Interest	10	16	-6 F O OUT
42	Selling and Admin Expenses	1257	1037	220 XX
43	Miscellaneous Expenses	65	51	14 XX
44				

Raw material consumed XX, it is a operating item I do not write operating items individually. So, XX power and fuel again XX employee cost XX interest. Interest is not XX this interest represents interest paid. So, it is a financing item F and you also mark it as O. All P and L items will have two effects. So for convince, we are marking them as I O or F O dividend income was marked as I O here. This is a interest paid on loans taken. So, it is F also marked as O it is an out flow.

Selling and admin XX, miscellaneous expenses XX keep in mind these miscellaneous expenses are from P and L account, where as in the balance sheet miscellaneous expenses which we had we have already marked it

Now, look at all the markings once again I hope they are all clear to you. If you have marked the items correctly then rest of the work is very simple. Now just like in the last problem for Crompton greaves, we can go for preparation of cash flow statement. I am coping the format for convenience, I request you once again to do along with me.

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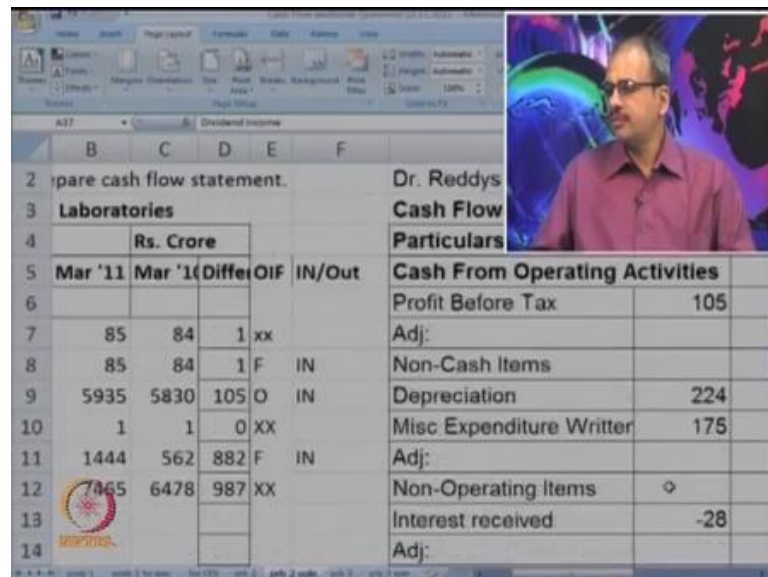


Particulars	Rs.	Rs.	Working Note:
Cash Flow Statement for year ended 31.03.			
Cash From Operating Activities			
Profit Before Tax	105		Profit Before Tax
Adj:			Increase in Reserv 105
Non-Cash Items			Add: Dividend Paid
Depreciation	599		Add: Tax paid 0
Adj:			PBT 105
Non-Operating Items			
Interest received	-28		

Now this is not for Crompton greaves this is a problem of doctor Reddys. So, let us change the companies name doctor Reddys laboratories, we are making cash flow statement for year ended march 2011 here. The first working note which we had to make was for calculation of PBT. Same thing is to for this problem also from the reserves you can see that there is a increase of 105.

Then, dividend paid and taxes paid was not given in this problem you can look at the P and L account there is no item like dividend or interest paid. So, we will ignore those items. That is why in this case, though we have working note we do not need that way the working note. The PBT is same as increase in results that is 105.

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Rs. Crore		Difference	O/F	IN/Out	Particulars	
Mar '11	Mar '12				Cash From Operating Activities	
					Profit Before Tax	105
85	84	1	xx		Adj:	
85	84	1	F	IN	Non-Cash Items	
5935	5830	105	O	IN	Depreciation	224
1	1	0	XX		Misc Expenditure Written	175
1444	562	882	F	IN	Adj:	
7865	6478	987	XX		Non-Operating Items	0
					Interest received	-28
					Adj:	

Next is depreciation look at the applications we have gross block accumulated depreciation you can see is increase by 224, so that much will be added here. Keep in mind here in this problem, we have got one more non cash item in the last case of Crompton greaves there was only one non cash item depreciation.

In this case, we have also have miscellaneous expenses return of that also needs to be recorded here. Miscellaneous expenditure return of you can see there was a last item in assets, how much amount we should take 570 or 175. We should take that difference, because what is return of in the current year needs to be added back to calculate the cash from operating activities. So, we will take 175.

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	B	C	D	E	F		
8	85	84	1	F	IN	Non-Cash I	
9	5935	5830	105	O	IN	Depreciatio	
10	1	1	0	XX		Misc Expen	
11	1444	562	882	F	IN	Adj:	
12	7465	6478	987	XX		Non-Operating Items	
13						Dividend Income	-137
14						Adj:	
15	3025	2426	599	I	OUT	Working Capital Items	
16	1334	1110	224	O	+	Increase in Inventories	-43
17	1691	1316	375	XX		Increase in Sundry Debt	-225
18	2462	2653	-191	I	IN	Decrease in Loans And A	251
19	1043	897	166	O	-	Increase in Current Liabi	83
20	1771	1061	710	O	-	Decrease in Provisions	-257

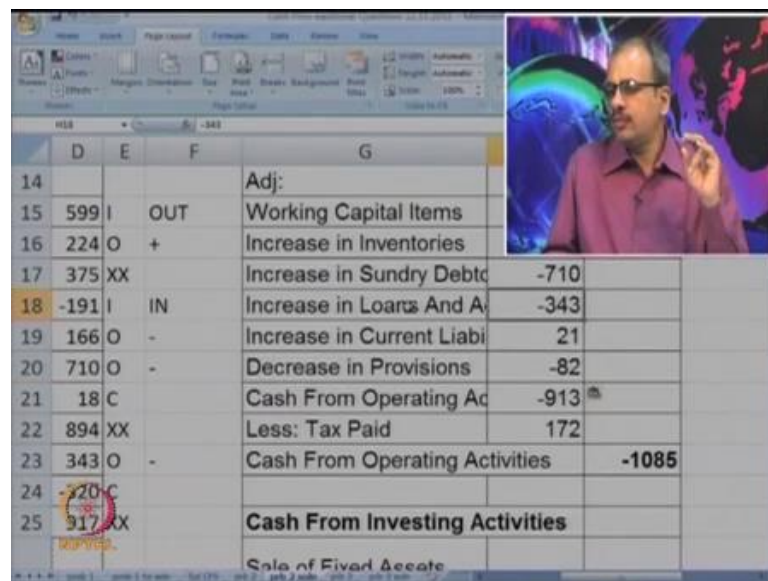
Then, next is non operating items in the P and L, we have got an item called dividend income 137 that is a non operating item. So, this represents the income on investment. So, it should come as an investing flow apart from that we have also reduced it from operating flows. So, we should record it as minus 137. Since this income is already added for calculating P and L or calculating the profit. Now, we are reducing it. So, it is minus 137.

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	C	D	E	F	G	
11	562	882	F	IN	Adj:	
12	6478	987	XX		Non-Operating Item	
13					Dividend Income	
14					Adj:	
15	2426	599	I	OUT	Working Capital Items	
16	1110	224	O	+	Increase in Inventories	-166
17	1316	375	XX		Increase in Sundry Debt	-710
18	2653	-191	I	IN	Decrease in Loans And A	251
19	897	166	O	-	Increase in Current Liabi	83
20	1061	710	O	-	Decrease in Provisions	-257
21	48	18	C		Cash From Operating Ac	-432
22	2003	894	XX		Less: Tax Paid	172
23	1321	343	O	-	Cash From Operating Activities	-604

Now, let us look at each of the working capital items .You can see here inventories they were going up by 166. So, it is O minus. So, inventories 166 debtors is 710, I will try to copy both the items together. So, it is minus 166. So, minus 166 please try to do it with me minus 210. Now, the next item from P and L, from working capital, we have taken inventory we have taken debtors next item is loans and advances it is 343. I will paste value only in this case it is minus because the loans and advances have not decreased, but it has increased correct.

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	D	E	F	G
14				Adj:
15	599	I	OUT	Working Capital Items
16	224	O	+	Increase in Inventories
17	375	XX		Increase in Sundry Debtors
18	-191	I	IN	Increase in Loans And Advances
19	166	O	-	Increase in Current Liabilities
20	710	O	-	Decrease in Provisions
21	18	C		Cash From Operating Activities
22	894	XX		Less: Tax Paid
23	343	O	-	Cash From Operating Activities
24	-20	C		
25	317	XX		Cash From Investing Activities
				Sale of Fixed Assets

So, if you look at the balance sheet, once again will realize that inventory debtors and loans all of them had increased. So, our marking was O minus same thing has been recorded in cash flow statement. We will not record fixed deposit because it is AC item.

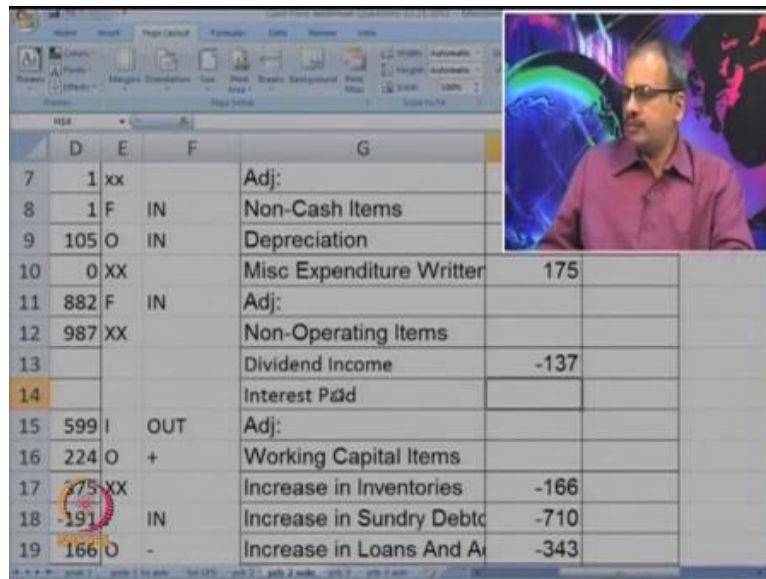
Now, go to current liabilities which is 21 and provisions is 81, so plus 21 and minus sorry 82 plus 21 and minus 82. There is a increase in current liabilities which means the cash availability also increases. So, it is plus 21 there is a decrease in provision. So, it is minus 82. So, all the working capital items are over. Now, we can go back and check if any of the O items has not been dealt with just look at it carefully.

So, we start with reserves then accumulated depreciation inventories, sundry debtors loans and advances, current liabilities, provisions, miscellaneous expenses all are accounted. Every time, you also solve a case try to cross check you can put a tick mark

there. Then, there was a one item IO that is dividend income that has also been accounted.

So, one more item interest I think this we have not accounted. So, this represents interests paid it is 10 16 minus 6. So, how much will be record we should only record the current year figure which is 10 and that is F O. So, it is a financing out flow we will add it for calculating operating activities.

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	D	E	F	G	
7	1	xx		Adj:	
8	1	F	IN	Non-Cash Items	
9	105	O	IN	Depreciation	
10	0	XX		Misc Expenditure Written	175
11	882	F	IN	Adj:	
12	987	XX		Non-Operating Items	
13				Dividend Income	-137
14				Interest Paid	
15	599	I	OUT	Adj:	
16	224	O	+	Working Capital Items	
17	75	XX		Increase in Inventories	-166
18	191		IN	Increase in Sundry Debt	-710
19	166	O	-	Increase in Loans And A	-343

So, we had here non operating items please insert column there. In the last problem, we had interest received. Now, we have got interest paid, we should not take the difference will go back again. So for the additional item, we are not bothered about 6, what we are interested is 10, same way for dividend income also we should take 117.

(Refer Slide Time: 44:45)

	D	E	F	G
4	re			Particulars
5	Differ	OIF	IN/Out	Cash From Operating Ac
6				Profit Before Tax
7	1	xx		Adj:
8	1	F	IN	Non-Cash Items
9	105	O	IN	Depreciation
				224
10	0	XX		Misc Expenditure Written
				175
11	882	F	IN	Adj:
				0
12	987	XX		Non-Operating Items
13				Dividend Income
				-117
14				Interest Paid
				10
15	599		OUT	Adj:
16	224	O	+	Working Capital Items

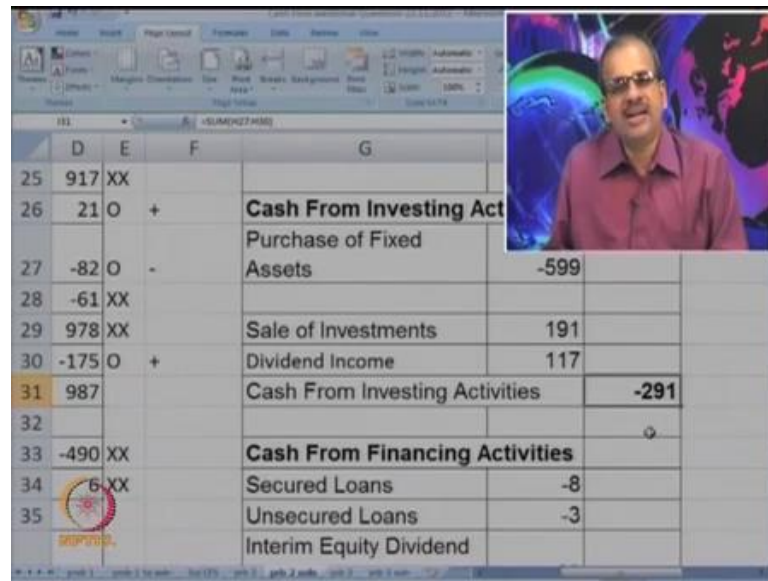
Just check if you have done it correctly. So, it is not 137 it is 117 and here we should take 10, is it correct. For dividend income we said minus 117, but for interest paid we said plus 10. So, we have recorded all items nothing about tax was given. So tax paid, we have recorded is as 0.

(Refer Slide Time: 45:17)

	D	E	F	G
13				Dividend Income
14				Interest Paid
15	599	I	OUT	Adj:
16	224	O	+	Working Capital Items
17	375	XX		Increase in Inventories
				-166
18	-191	I	IN	Increase in Sundry Debtors
				-710
19	166	O	-	Increase in Loans And Advances
				-343
20	710	O	-	Increase in Current Liabilities
				21
21	18	C		Decrease in Provisions
				-82
22	894	XX		Cash From Operating Activities
				-883
23	43	O	-	Less: Tax Paid
				0
24	320			Cash From Operating Activities
				883
25	917	XX		

If you take the sum of all the items you can see that minus 883 is a cash from operating activities.

(Refer Slide Time: 45:26)



	D	E	F	G
25	917	XX		
26	21	O	+	Cash From Investing Act
				Purchase of Fixed Assets
				-599
27	-82	O	-	
28	-61	XX		
29	978	XX		Sale of Investments
				191
30	-175	O	+	Dividend Income
				117
31	987			Cash From Investing Activities
				-291
32				
33	-490	XX		Cash From Financing Activities
34	6	XX		Secured Loans
				-8
35				Unsecured Loans
				-3
				Interim Equity Dividend

Now, let us go to investing and financing activities. So, look at the balance sheet and P and L carefully. And concentrate on the items which were marked as I. So, one of the items you can see is gross block difference is 599. In this case it is not the sale, but it is purchase of fixed asset 599 should it be minus or plus it should be minus, because it is a decrease of cash.

Then, we also have we do not have any work in progress here than we have investments which is I in 191. There is a sale of investment. There is no interest received, but there is dividend income of 117. Now, dividend income is an inflow. So, it is plus 117 here. So, you will negative 291 as a total of investing activities. The last categories is financing activity very simple look at f items. So, you will see that there is equity capital difference is 1.

(Refer Slide Time: 47:31)

	D	E	F	G
28	-61	XX		
29	978	XX		Sale of Investments
30	-175	O +		Dividend Income
31	987			Cash From Investing Activities
32				
33	-490	XX		Cash From Financing Activities
34	6	XX		Equity Share Capital
35				Unsecured Loans
36	816	XX		Interest
37	-137	O IN		Cash From Financing Activities
38	151	XX		
39	41	XX		Total Cash generated
40	187	XX		

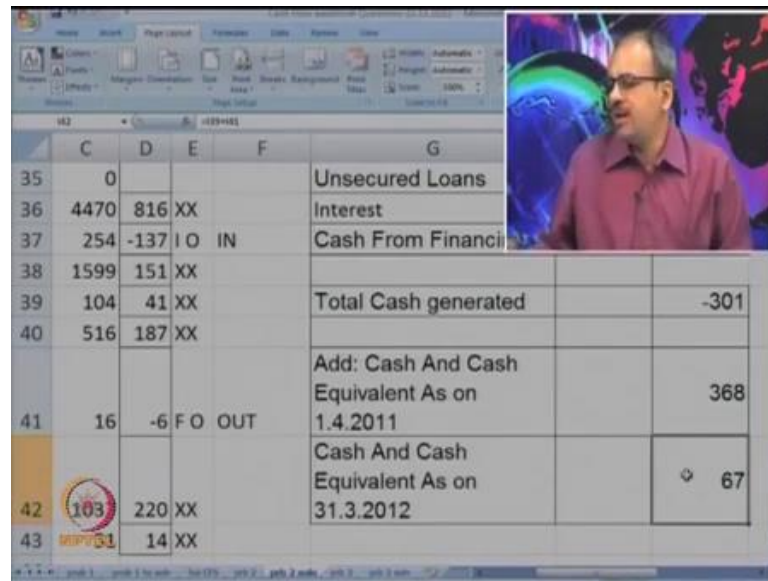
This is issue of shares. So, its plus 1 then secured loans there was no difference, but unsecured loans increase of 882. So, it is also representing an inflow. There is no entry for dividend given just check there is one item for interest paid of 10 should it be plus 10 or minus 10 should minus ten because it is an out flow. So, we get total 873.

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	D	E	F	G
31	987			Cash From Investing Activities
32				
33	-490	XX		Cash From Financing Activities
34	6	XX		Equity Share Capital
35				Unsecured Loans
36	816	XX		Interest
37	-137	O IN		Cash From Financing Activities
38	151	XX		
39	41	XX		Total Cash generated
40	187	XX		
41				Add: Cash And Cash Equivalent As on 1.4.2011
				151

Now, the structure is ready. So, 883 91 and 873 cash generated is minus 301 look at the cash and cash equivalence. We have two items here cash and bank balance is 66 48 and we also have F D which was 320. Now, it has become 0.

(Refer Slide Time: 49:04)



The screenshot shows a PowerPoint slide with a cash flow table. The table has columns C, D, E, F, and G. The rows are numbered 35 to 43. The data in the table is as follows:

	C	D	E	F	G
35	0				Unsecured Loans
36	4470	816	XX		Interest
37	254	-137	IO	IN	Cash From Financi
38	1599	151	XX		
39	104	41	XX		Total Cash generated
40	516	187	XX		
41	16	-6	F O	OUT	Add: Cash And Cash Equivalent As on 1.4.2011
42		220	XX		Cash And Cash Equivalent As on 31.3.2012
43		14	XX		

The video inset shows a man in a purple shirt speaking against a background of a globe.

So, cash equivalent in the beginning was 48 plus 320 and cash equivalent in the end represents only cash and bank balance which is 66. So, 301 368, we get 671 is due to rounding error. But, otherwise all the items have been correctly dealt with look at the problem. Once again any queries you can look at the earlier video where more details have been discussed. Over all today we have to we have try to cover the case on Crompton greaves and we have also started and completed case on doctor Reddy's laboratories. I hope with this now the concept of cash flow will become much more clear to you. So, we stop here.

Thank you so much.