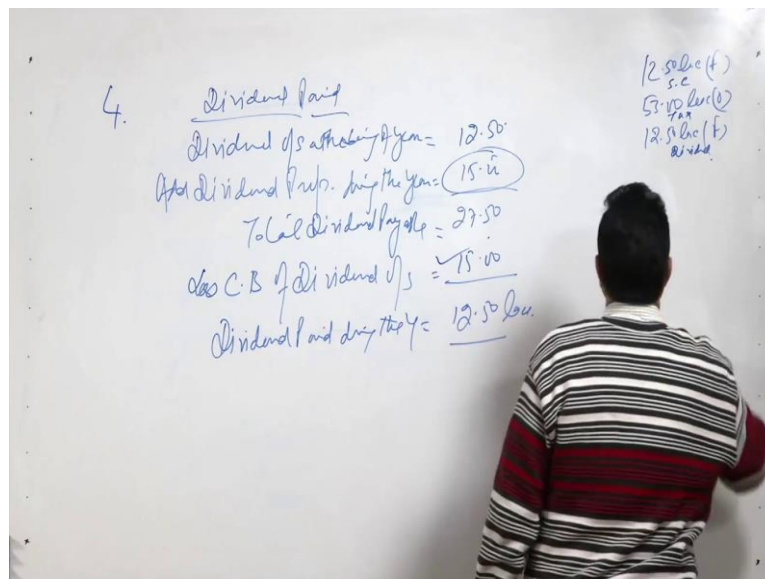


Financial Statement Analysis and Reporting
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Indian Institute of Technology, Roorkee

Lecture – 56
Cash Flow Statement- Further Analysis Part-II

Welcome students. So, we are in the process of preparing the cash flow statement and we prepared the first 2 schedules, we verified first the amount of the reserve and surplus and we could make out that yes, reserve and surplus is 119 not 94.7. So, that we verified, but we will not be using that in the final cash flow statement because in the final cash flow statement we start with the profit before tax and the extraordinary incomes so, but verification was important. Second we tried to find out that say how much is the actual cash inflow on account of the share capital.

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So, you note it down that is that inflow is by 12,50,000; 12,50,000. So, we will be using this figure, not the 12,50,000 and this is under the financing and then second was the tax outflow on account of the tax was 53,00,000 and that is the operating cash outflow. So, we will be using this inflow and outflow figures not the raw figures which were used in the basic cash flow statement and we try to prepare the cash flow statement with the help of that will not be doing that now and it means our 2 items we have worked out which

are of use for the final cash flow statement what is the financing inflow on account of share capital that is only 12,50,000; 25,00,000 worth of rupees bonus shares are issued.

So, no real increase in cash and in case of the tax we calculated by adjusting the opening and closing balances of the current and the deferred tax we could make out that the total payment seems to have been made is of 55,00,000, but out of that 2,00,000 are paid as a say TDS tax at the source it has been deducted by the source who has paid the interest to the firm. So, that is 2,00,000, it means only 53,00,000s of the tax has been paid by the firm in the cash. So, this is the operating outflow. So, this is another figure will be using for preparing the final cash flow statement and now is the next schedule we are preparing that is the fourth schedule and that is for dividend analysis dividend.

Dividend analysis; so, analysis means that the dividend paid by the firm not received dividend paid by the firm. So, the analysis of the dividend paid.

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Investments		
Long term	99.00	105.00
Short term	43.50	21.75
	142.50	126.75
Current Assets, Loans and Advances		
Inventories	28.00	78.00
Sundry Debtors	85.00	72.50
Cash and Bank Balances	10.00	2.75
Interest receivables	5.00	2.00
Loans and advances	12.00	15.00
	140.00	170.25
Less: Current Liabilities and Provisions		
Current liabilities:		
• Sundry creditors	16.50	94.50
• Interest payable	2.50	5.00
Provisions:		
• Current income tax (Net of advance tax paid	3.00	5.00
• Proposed dividend	15.00	12.50
• Corporate dividend tax	1.80	1.50
	38.80	118.50
Net Current Assets	101.20	51.75
Miscellaneous Expenditure (To the extent not w/o)	16.00	5.00
TOTAL	366.20	228.50

So, if you look at the dividend balance how much is the; if you go to first go to the balance sheet if you look at the balance sheet what is the balance in the dividend account has a current liability, if we look at the dividend balance is proposed dividend is was say a 12.5 lakh proposed dividend previous year that was the proposed dividend 12.5 lakh. So, and the closing is 15. So, it means 12.5 lakh was outstanding to be paid in the previous year and how much dividend is declared in the current year will check for the

dividend declared in the current year and dividend declared in the current year is proposed dividend is 15, for the current year it is 15,00,000.

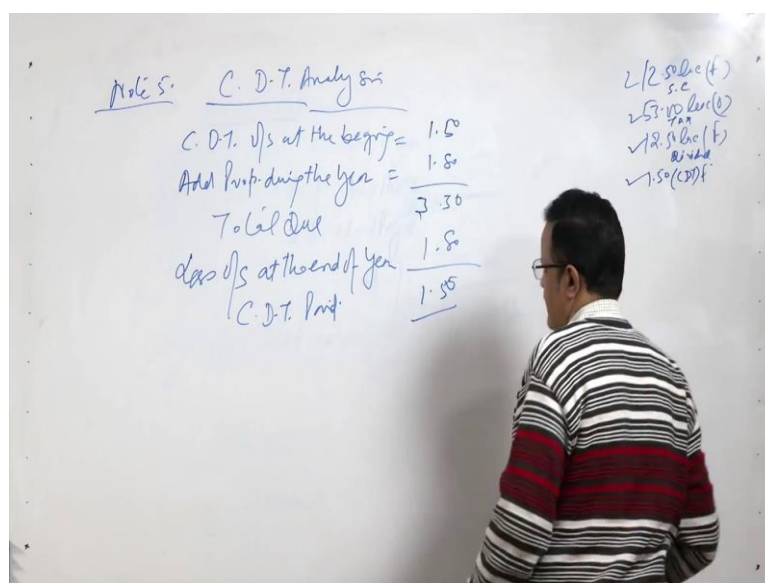
So, total amount becomes due to be paid. So, we can call it as the dividend, dividend outstanding at the beginning of year is 12.5 lakh, add dividend declared during year dividend proposed; dividend proposed during the year is how much that is 15,00,000. So, total dividend payable; total dividend payable in the current year is how much that is 27.5 lakhs, 27.5 lakhs, but how much is the still closing balance which is still outstanding if you look at the closing balance in the dividend account proposed dividend account that is 15,00,000.

So, it means less closing balance of dividend closing balance of dividend outstanding that is 15,00,000 it means actual dividend paid during the year dividend paid; dividend paid during the year is how much that is only 12.5 lakhs and this is the outflow on account of dividend, if we talk about the dividend outflow, this is the 15; 12.5 lakhs 12.5 lakhs that is on account of financing outflow that is the dividend outflow dividend outflow or outflow of the cash on account of the dividend is only 12.5 lakhs. It means we have paid in the current year the dividend paid which was proposed in the previous year which was outstanding at the beginning of the current year that was 12.5 lakhs.

For the dividend proposed in the current year that is 15,00,000 of the rupees that is still outstanding and that has not been paid. So, no cash outflow on account of that. So, we have to verify this way. So, it means we are now noting it down there that the cash outflow on inflow on account of share capital financing activity is 12.5; 53 is on account of operations tax that outflow and then it is the 12.5 is the say dividend and that is again the outflow. So, it is share capital we write here share capital then it is tax and then it is dividend these are the; we are noting it down you can keep on noting it down. So, these are the 3 or the four figures we have worked out.

Now, we talk about the next thing that is dividend tax will be analyzing now the dividend tax how much cash outflow is there on account of the dividend tax how much is the corporate dividend tax you see that what is the opening balance will go to the balance sheets top check there the corporate dividend tax is what was the outstanding in the beginning 1.5 how much is beginning in the at the end of the current 1.8.

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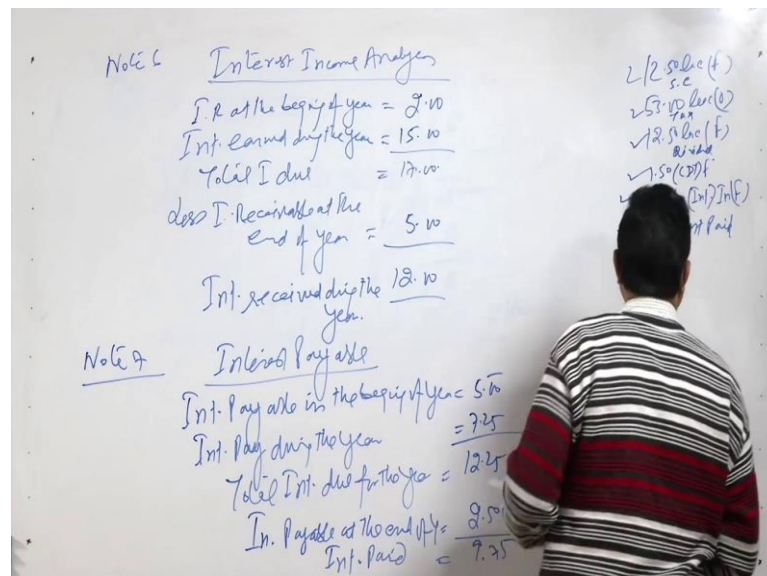
So, will write here corporate dividend; next schedule this is the schedule number 5, note number 5 or schedule number 5 that is the corporate dividend tax analysis corporate dividend tax analysis and if you make this analysis will find out that the corporate dividend tax is that is outstanding corporate dividend tax outstanding at the beginning at the beginning of the year corporate dividend tax outstanding at the beginning of the year is that was 1.5.

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SKYLINE INDIA LIMITED	
Profit and Loss Account for the year ended	
31 st March, 2007	
Particulars	(Rs.) in lacs
Sales	1532.50
Interest	15.00
Dividend	10.00
Total Income	1557.50
Materials cost	1121.00
Manufacturing expenses	174.75
Administrative and selling expenses	60.25
Depreciation	22.50
Interest	7.25
Deficit on fixed assets sold	0.25
Miscellaneous expenditure w/o	4.00
Profit Before Taxation and Extraordinary Item	167.50
Expenditure income - Compensation for copyright infringement	9.00
Profit Before Taxation	176.50
Provision for Income Tax:	
* Current income tax	25.00
* Deferred income tax	15.00
Total	40.00
Profit After Tax	136.50
Balance brought forward from last year	14.50
Balance Available for Appropriations	151.00
Appropriations:	
* Proposed dividend	15.00
* Current dividend tax	1.80
* General reserve	120.00
Surplus Carried to Balance Sheet	14.20

So, piece corporate dividend tax paid during the year is that is only 1.5 lakh, corporate dividend tax paid during the year is 1.5 lakh and this amount is 1.5 lakh. This is corporate dividend tax and then it is financing outflow this is the another outflow we are going to make use of another outflow we are going to make use of that is the corporate dividend tax which is now to be taken into account and the cash flow also on account of the corporate dividend tax is this much now we take the next schedule and when we talk about the next schedule the sixth schedule is that is the interest income we have talked over the interest income and interest expense.

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So, let us check the schedule number 6 that is note number 6 or schedule number 6 that is interest income analysis; interest income analysis and if you look at the interest income analysis that is interest income analysis how much is the interest income is there any

interest receivable here as a asset if you talk about the interest receivable let us check the interest receivable anything is that is the current assets sundry debtors yes interest receivable is there interest receivable in the beginning was how much interest receivable in the beginning was beginning of the year is that is 2,00,000 and now it is the closing balance is 5,00,000.

It means interest receivable at the beginning of year that is how much interest receivable at the beginning of the year is how much that amount is 2,00,000 that amount is 2,00,000 interest earned interest earned during the year interest earned during the year is how much interest earned during the year is interest income will be talking about here it is the interest income and this is 15,00,000 interest earned during the year is 15,00,000 this is 15,00,000. So, it means total interest due in the current year is how much? 17,00,000, so, less interest receivable at the end of year at the end of year how much it is that is 5,00,000 it means interest received during the year interest received during the year is during the year 2007 is how much it is 12,00,000.

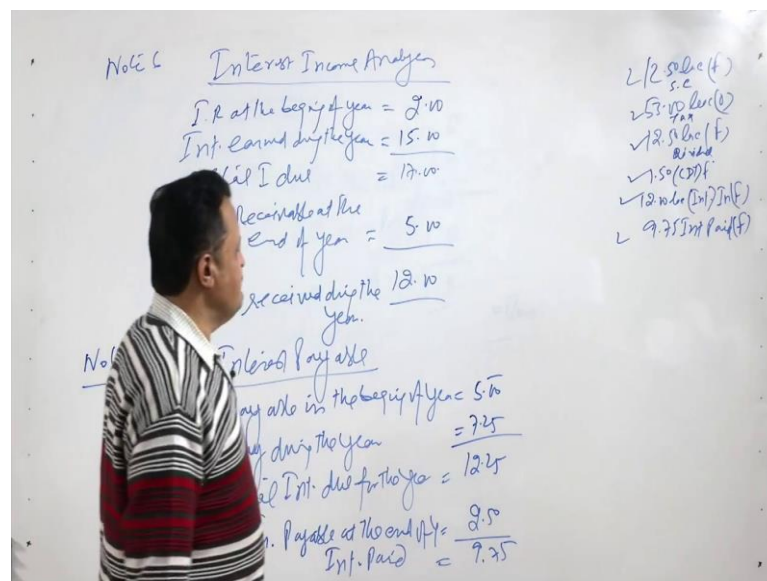
Interest worth of 12,00,000 is received and this is the interest that is 12,00,000 will be taking here 12,00,000 and it is on account of interest and this is the inflow financing inflow you can say this is the finishing inflow this we are going to take it as the fifth figure apart from the other figures in the final cash flow statement in the final cash flow statement and now we talk about the analysis of the interest payable interest payable next is a note number further schedule number 7. So, interest payable interest we make the analysis of the interest payable. So, interest payable is let us check the interest payable go to the liability side in the balance sheet if you go to the liability side in the balance sheet you will find hear that is the interest payable is current liabilities yes it is the interest payable.

So, how much interest was payable in the beginning we take the current liabilities the interest payable in the beginning was interest payable that is 5 how would how much is it left 2.5. So, start here like this interest payable balance table in the beginning of year in the beginning of year that is how much it is 5,00,000 and now interest payable during the year interest payable during the year it is how much interest payable during the year is we will have to check for this in the where it will be available in the profit and loss account. So, interest payable during the year is in the profit and loss account and interest

expense is how much this is I think 7.25 is the interest payable during the year that is 7.25.

So, total interest due total interest due for the year is how much 12.25 lakhs, out of this even due at the end of the year is how much interest due at the end of the year is interest payable is 2.5 2 point interest payable; interest payable at the end of the year at the end of year is 2.5. So, how much is actually paid? 9.75; interest paid during the year is 9.75, this the next item 9.75 interest paid and this is the on account of the loans. So, it is the financing outflow that is the outflow it is financing and this is outflow interest paid is 9.75 we will be taking this item outflow also into account this is another item. So, we have dealt with the 7th schedule. So, far we have prepared the 7 notes so far and then we will be preparing the remaining notes also.

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So, number one is that we will have to make the analysis of additional information which is given to us and then we will have to check the other items of inflow and outflow where we have the opening and closing balance and then finally, we will have to arrive at the operating investing and financing outflows or the inflows. So, this is we have already prepared the interest expense we have also done. So, the 7 schedules are ready and we have got the 6 balances because we are not going to get the balance on account of the share capital we are not going to take that into account.

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Additional Information:

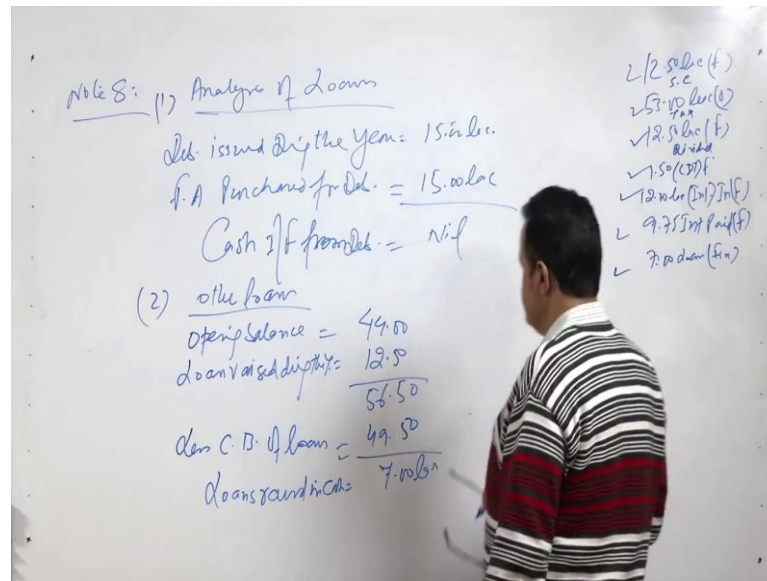
1. An amount of Rs. 25 lacs was capitalized out of general reserve to issue bonus shares. Rest of the capital was raised in cash.
2. 12% debentures were issued in lieu of a fixed asset acquired.
3. Long term secured loans (others) of Rs. 12.50 lacs were raised during the year.
4. Fixed assets with original cost of Rs. 4 lacs and accumulated depreciation of Rs. 3 lacs were sold for Rs. 75,000.
5. Long term investments amounting to Rs. 14 lacs were purchased during the year.
6. Last year's outstanding dividend and dividend tax were paid during the year.
7. Miscellaneous expenditure amounting to Rs. 15 lacs were incurred during the year.
8. Out of interest income of Rs. 15 lacs, Rs. 10 lacs were actually received during the year. Rs. 2 lacs relating to interest income of last year were also received during the current year.
9. Out of interest expense of Rs. 7.25 lacs, Rs. 4.75 lacs were actually paid during the year. Rs. 5 lacs relating to interest expense of the last year were also paid during the current year.
10. Tax deducted at source on interest received, amounting to Rs. 2 lacs, is included in the current tax expense.

So, now the next thing is that is the, we have to adjusted this first point that is a share capital we have adjusted the interest component also that is the total when we talk about the last years outstanding dividend; dividend tax were paid during there we have done this adjustment also.

Then we have interest part also we have already done out of the interest income 15,00,000; 10,00,000 were actually received during the year and 2,00,000 for this we have also adjusted this and on account to the interest expense that is 7.2 lakh; 5,00,000 4.75 lakhs were paid during the year and 5,00,000 relating to the interest of expense were paid. So, total amount paid is how much it says that it is 4.75 plus 5. So, it is again the 9.75 we have calculated. So, we have verified this point also. So, the total information given as the additional information we will have to take them that into account and we will have to check for that whether this information taking this information into account the inflow and outflow figures are balancing or not.

So, this is the detailed analysis now you go for the let say analysis of the long term loans. So, we have 2 kind of the long term loans that are the say we have given here 12 point percent debentures were issued in lieu of the fixed assets. So, we have to make analysis of it and we will have to go for the long term secured loans that is of 12.5 lakhs were raised during the year. So, we will have to check this.

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So, it means now the analysis of loans and this is a schedule number 8; schedule number 8; note number 8 or schedule number 8 that is the analysis of loans analysis of loans. So, if you make the analysis of loans here. So, how much loans we are looking at go to the balance sheet how much balance we can find out in the balance sheet in the balance sheet the loans balance is given to us is how much is the debentures especially 0, in the opening balance is 0. So, raised during the year is 15,00,000 .

Raised during the year is 15,00,000. So, debentures issued during the year that is for 15,00,000 and finally, the last point says that how much fixed assets are purchased for how many debentures that is the 12 percent debenture were issued in lieu of the fixed asset. So, it means fixed assets purchased for debentures that is again same amount 15,00,000. So, it means cash outflow sorry inflow from debentures cash inflow from debentures is nil, nothing will come there cash inflow on account of the debentures will be nil because we have given the debentures and we have received the fixed assets from the firm to whom the debentures have been given this is the one part second part of the loans in other loans.

Second analysis of the loans is other loans and when you talk about the second part of the loans is other loans says that long term secured loans others of rupees 12.5 lakhs were raised during the years. So, let us check the balance sheet of the other loans go to the balance sheet if you go to the balance sheet here you will check the balance here and

that is how much the loans component other loans yes long term loans we have to talk about here that is initial opening balance was 44,00,000 opening balance opening balance is how much it is 44,00,000 and how much loans raised during the year is 12.5.

So, it means and the closing balance is forty 9.5 it means the actually inflow is own that is only 12.5; point 5. So, where is the other amount has gone 2 here it is written that long term secured loans of rupees 7.5 lakhs were raised during the year and long term investments for this last stage of this dividend was this miscellaneous expenditure is this. So, it means if you talk about the total loans component in the loans part we will have to see here that the total loans are the opening balance is 44 raised during the year yes loans raised during the year is 12.5; 12.5 it is 1, it is 6 and it is 56.5 and if you talk about the closing balance it is 49.5 less closing balance of loans is 49.5; 49.5 lakhs; it means loans raised in cash.

Loans raised in cash are how much? Cash out inflow on account of the loans is that is 7,00,000 that is 7,00,000, it means only 7,00,000 of the loans are raised in cash other loans maybe raised in kind and that information is not available. So, we will have to check for that information also there where that other loans are there and how much cash into has been on account of the loans it could be that part of the loans I have also been paid also and if you talk about that loans paid during the year that is the 7,00,000. So, in case in terms of the cash we are able to find out that the loans are raised in cash are only 7,00,000. So, it means cash inflow that is the finishing inflow is only 7,00,000 on account of loans and that is financing.

Loans inflow or the cash inflow on account of the loans that is the 7,00,000 of the inflow has come to the firm is that is on account of this and that is the financing inflows. So, here we will have to find out that if you talk about the schedules we have prepared the schedules so far for the loans and then for the other loans and then we have done this analysis also. So, we have finished the schedules that are total number of schedules we have finished. So, far is the 8 schedules we have prepared. So, far and now we will be talking about the other schedules. So, if you talk about the other schedules will be talking here the other schedules with regard to the assets now we have to talk with the fixed assets and schedule number nine is here that is for the fixed assets.

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Note 9: F. Assets	
Addition in the F.A during the year	= 78.50 lacs.
Add Assets sold during the year	= 4.00
Total A.	= 82.50 lacs.
In. Capital w.i.p	= 2.50
Total fixed during the year	= 85.00 lacs
Assets received from Debi.	= 15.00 lacs
Cash outflow on M.C.F.T.	= 7.00 lacs

So, here it is the fixed assets schedule or the note number 9 is fixed assets fixed assets this is a schedule number 9. So, if you look at the schedule number 9 that is fixed asset schedule we will see here that what is the balance given in the balance sheet balance given in the balance sheet is that is fixed assets gross block is 95.5 was the opening balance and gross block is 174. So, it means you can call it as that is the addition to the fixed assets is addition in the fixed assets during the year during the year are how much addition in the fixed assets during the year is how much? That is if you take it 95, so, it is 4.5 and 74.

78.5; it is 78.5 lakhs worth of 78.5 lakhs of the fixed assets are raised during the year and then we talk about asset sold during the year. So, it means add assets sold during the year during the year is for 4,00,000. So, total assets were in the during the year is that is 82.5 lakhs; these are the 82.5 lakhs of the assets are there with this and in addition to the capital work in progress we will have to go for now the next thing that is if you look at the addition to the fixed assets here it is written that from the balance sheet we could find out that it is 78.5 lakhs of the assets have appreciated and assets with original cost of 4,00,000 and accumulated depreciation of 3,00,000 was sold during the year.

So, that was also there during the year. So, total assets during the year were 82.5 lakhs and now we have to talk about the increase in capital work in process how much that increase is there in the capital work in process if you look at the capital work in process

So, it means cash outflow on account of fixed assets is how much that is 70,00,000 that is 70,00,000 cash outflow on account of the fixed assets is that is 70,00,000. So, it means here this is the next item that is the 70,00,000 for the fixed assets and this is investing outflow this is the next item we will have to note that is the cash inflow on account of the investing assets that is we have to take this into account. So, total is the fixed assets analysis we have done. So, far and we have checked it that yes this much of the fixed assets of loan in the firm and now next analysis will do for the disposal of the fixed assets if you check the disposal of the fixed assets first part is for the addition of the fixed assets and second part is for the disposal of the fixed assets.

Note 9: Dis of f. Assets

Fixed A. Sold during the year = 4.00
less Dep. = 3.00
Balance of f. A = 1.00

less Cash received on sale = 0.75
Loss on g.o. f. A = 0.25

✓ 25000 (f)
s.c
✓ 50000 (f)
✓ 125000 (f)
✓ 150000 (f)
✓ 125000 (Int) Int (f)
✓ 975000 (paid f)
✓ 700000 (f)
✓ 700000 (Int)
✓ 0.25 (f) Int in
0.25 (f) Int

Disposal of fixed assets analysis; So, it means fixed assets fixed assets sold during the year fixed asset sold during the year is that is for 4,00,000 less depreciation; depreciation part is 3,00,000. So, the balance of fixed assets is 1,00,000 this is 1,00,000 less cash received on sale of the fixed assets is 75,000. So, now, loss on the loss on sale of fixed

assets is how much that is 70; 25,000. So, here we have the cash inflow that is investing cash inflow is of say 75,000s 75,000 that is the investing fixed assets that is investing inflow then we have got the 25,000s that is the operating you can call it as inflow.

So that is you call it as the yeah operating cash operating inflow this is 25,000s as the operating inflow and depreciation part we have already adjusted. So, we will be finding it out like that. So, it means if you take this into account. So, cash on account of the disposal of the fixed assets the total cash we have received is 75,000 rupees as the sales proceeds and the 25,000 rupees, we have received from the profit and loss account because loss on the sale of fixed assets is debited in the profit and loss account we make a provision there and be recovered that loss by debiting the profit and loss account. So, that is why 75,000s is the inflow from the sale proceeds and 25,000 is from the operations that is for the operation we have to adjust the loss on sale of fixed assets in operations and we have to recover it from the profit and loss account. So, these are the some more schedules with regard to this cash flow statement of skyline industries and we will be preparing some more schedules and then finally, moving to the preparation of the final cash flow statement and that will be doing in the next part of discussion.

Thank you very much.