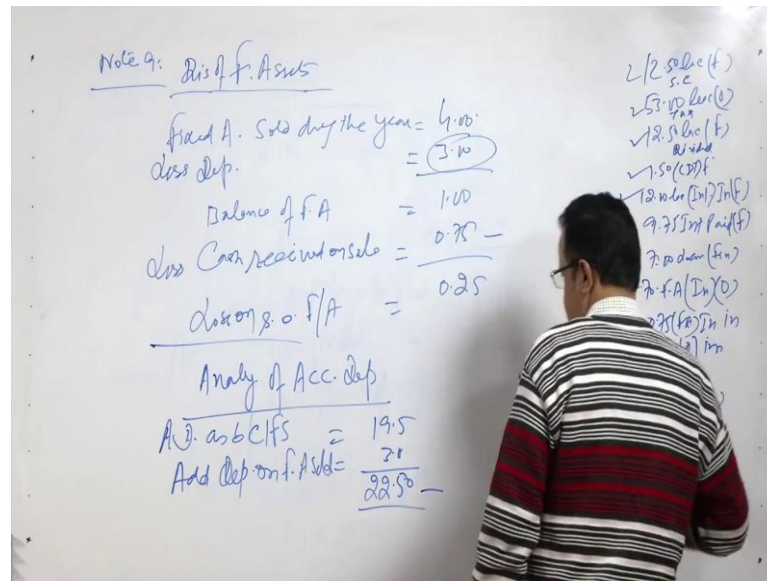


**Financial Statements Analysis and Reporting**  
**Dr. Anil Kumar Sharma**  
**Department of Management Studies**  
**Indian Institute of Technology, Roorkee**

**Lecture - 57**  
**Final Cash Flow Statement Part-1**

Welcome students. We are in the process of preparing the cash flow statement and we are doing the analysis of different items that is inflows and outflows. So, we are now we will be talking about the, we are discussing the fixed assets, and next thing is will be doing the analysis of next part that is third part in the eighth schedule or the ninth schedule will be saying that is the 9.3 is the accumulated depreciation analysis of analysis of accumulated depreciation.

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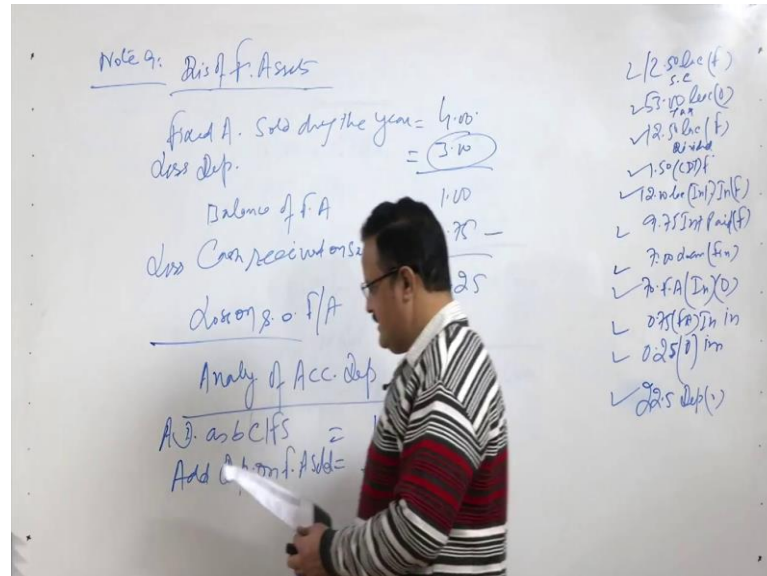
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SKYLINE INDIA LIMITED		
Balance Sheet		
AS AT 31 <sup>st</sup> March, 2007		
	2007 (Rs. in lacs)	2006 (Rs. in lacs)
<b>SOURCES OF FUNDS</b>		
<b>Shareholders' Funds</b>		
Share Capital	100.00	62.50
Reserve and Surplus	163.70	69.00
	263.70	131.50
<b>Loan Funds</b>		
Secured (Long term) :		
* 12% debentures	15.00	.....
* Others	49.50	44.00
Unsecured (Short term)	6.00	8.00
	70.50	52.00
<b>Deferred Tax Liabilities</b>	32.00	45.00
<b>TOTAL</b>	<b>366.20</b>	<b>228.50</b>
<b>APPLICATION OF FUNDS</b>		
<b>Fixed Assets</b>		
Gross Block	174.00	95.50
Less: Accumulated depreciation	72.50	53.00
<b>Net Block</b>	<b>101.50</b>	<b>42.50</b>
Capital Work-in-Progress	5.00	2.50
	106.50	45.00

So, if we take the depreciation figure here as per the basic cash flow statement what is the difference in the accumulated depreciation here, this is 53, and it becomes 72.5. So, you can call it as the say accumulated depreciation as per basic cash flow statement as per basic cash flow statement is how much that is 19.5. And then we have to add the depreciation add depreciation on fixed assets sold, you have sold part of the fixed asset also and the depreciation on that was much - 3. So, it is total depreciation is 22.5 lakhs, total depreciation is 22.5 lakhs. So, it means when you talk about the total cash flow that is the total inflow is the on account of depreciation the cash inflow is how much, the cash

inflow is 22.5 lakhs on account of depreciation, and this is operating cash inflow that will be taking into account the operating cash inflow.

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So, this is the one more point of analysis we have taken into account, and we have adjusted for the depreciation also. And now I think one or two important items are left with us; and after that will be move into preparing the preparation of the final cash flow statements. But here one more item we have to talk about here is that is if you talk about the loans figure that is 5.5, so it has raised. So, if you talk about, we were talking about the balance of the amount of the loans. So, increase in the loans amount is during the year is 5. So, if you talk about we have discussed the total amount of the loans and everything, it means our analysis of almost all the items is over only two items are left; one item is the investments and the other item is the miscellaneous expenditure.

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Note 10: <u>Analysis of Investments</u>	
Op. Balance = 105.00	
Add Purchase = 14.00	Cash outflow
Total Inv. = 119.00	
Less closing bal. = 99.00	
Cash inflow from I. = 20.00	Cash inflow

2/2 sale (f)	s.c
25.00 sale (f)	
✓ 12.50 sale (f)	Dividend
✓ 1.50 (f)	
✓ 12.00 (In) (f)	
✓ 9.75 (In) (f)	
✓ 7.00 (In)	
✓ 7.00 A (In) (f)	
✓ 0.25 (In) (f)	
✓ 0.25 (In)	
✓ 0.25 (In)	
✓ 14.00 (f) (I)	
✓ 20.00 (f) (I)	

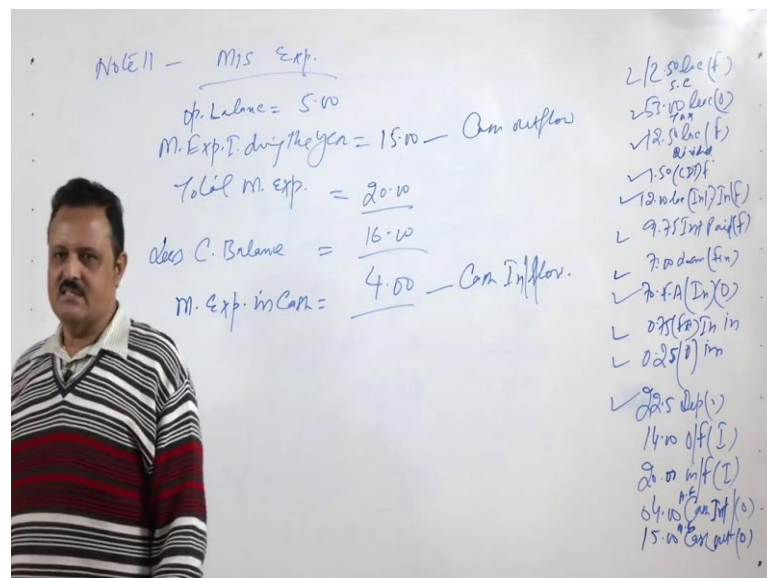
So, now will go for the analysis of the next item, and this is the item number 10, note number 10 that is the analysis of investments. If we talk about the analysis of investments opening balance is how much, opening balance is 105 lakhs. And purchase during the year is there any investment purchase during the year, let us check for that.

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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.

Say amount of investments amount to be 14 lakhs were purchased during the year. So, will add it up add purchased during the year is 14 lakhs. So, total balance becomes 119 lakhs total investments, total investments are 119 lakhs. Less closing balance closing

balance of investments is how much 99 lakhs, it means now the cash inflow from investments is how much it is 20 lakhs. Cash worth rupees 20 lakhs as flown in on account of investments, you can call it as we will have to count for this, this is cash outflow and this is the cash inflow. So, both outflow and inflow have taken place under the investments. So, it means you call it as that is the 14 lakhs that is cash outflow on account of investing activities, and then will have to talk about 20 lakhs that is the inflow on account of the investing activities. We will have to take that into account both these inflows and outflow will have to take this into account. So, this is the balance this is the figure, and this is the 20 lakhs. So, we have dealt with one more item.



And what is the closing balance of the miscellaneous expenditure. Let us check in the gazette 16 lakhs. So, less closing balance less closing balance and this is 16 lakhs. So, cash outflow on account of the miscellaneous expenditure is that is only 4 lakhs cash. So, miscellaneous expenditure in cash in the year is only 4 lakhs and this is the 4 lakhs on account of the miscellaneous expenditure, this is the cash outflow and this is operating outflow miscellaneous expenditure is the operating outflow of the cash. So, it means and this is also 15 is also operating 15 is also operating cash. So, be paid four for the previous and 15 we incurred now. So, cash outflow again here on account of the miscellaneous expenditure and this is also a miscellaneous expenditure. So, it means total amount is this is the outflow and this is on account of the operations. So, this is the cash outflow.

Two cash outflows are there; one cash outflow is on account of the say when we have incurred the fresh expenditure cash outflow that is 15 lakhs and then the miscellaneous expenditure return of during year is 4 lakhs. So, it means miscellaneous expenditure we have now the balance is 16 lakhs. So, it means closing balance is 16 lakhs, it means the total expenditure we came opening balance was 5, then incurred during the year this whole miscellaneous expenditure incurred during the year is this was written here miscellaneous expenditure amount into rupee, then next was the incurred during the year is 20. So, cash is out flown here this is the cash outflow and here this is cash inflow, sorry 4 lakh is the inflow and 15 is the outflow.

So, current expenditure incurred miscellaneous expenditure incurred cash outflow was 15 lakhs. And recovered was because we recover it by debiting that miscellaneous expenditure in the profit and loss account by following the process of amortization. So, we have recovered that. So, it means inflow is 4 lakhs and outflow is the 15 lakhs, both inflow and outflow have taken place. So, I see that for preparing the now we are if you look at these balance is we have these balances available here, and then we are ready for preparing the final cash flow statement.

And here you see that we have the balances of share capital, tax dividend, the dividend tax then interest, received interest paid then we talk about the loans. Then we talk about the fixed assets, we talk about the say depreciation, then we talk about the say accumulated depreciation. And we talk about the other items is on account of

investments, then we talk about the say again the investments, and then we talk about the miscellaneous expenditure.

So, once this all is taken into account let us move forward for preparing the final cash flow statements quickly and then we will be knowing that how that cash flow statement is showing the balance of cash from both the operating investing and the financing activities. So, that will be now the last step for us. And now items some will be taken from the balance sheet directly and some items will be taken from the say this analysis here and finally, will be arriving will be checking.

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Final Cash Flow Statement of Skyline India	
Cash Flow from op. activities	
Profit before tax and EOI =	167.50
Add/Less: Adjustment	
Interest Income =	(15.00)
Dividend Income =	(10.00)
Int. exp. =	7.25
Deficit on sale of FA =	0.25
Dep. =	22.50
Mis exp w/o =	4.00
Extra ordinary Income =	9.00
Mis exp. In. =	(15.00)
Op. Profit before W.C. changes	170.50
Add/Less W.C. changes	
Inventory	50.00
Prep. & S. Inv.	(12.50)
	78.00

Cash generated from op. =	332.00
Corporate tax paid =	53.00
Cash from op. activities =	80.00

7.6 div. (In)	
7.6 FA (In) (0)	
0.25 (FA) In in	
0.25 (0) in	
22.5 Dep (0)	
14.00 off (I)	
22.00 in off (I)	
04.00 (Mis exp) (0)	
15.00 (Mis exp) (0)	

So, we will call it as the final cash flow statement final cash flow statement of Skyline India. And in this case, we will be taking into account all the items. So, we will start here cash flow from operating activities, cash flow from operating activities. This is the first item.



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<p style="text-align: center;">SKYLINE INDIA LIMITED Profit and Loss Account for the year ended 31<sup>st</sup> March, 2007</p>	
Particulars	(Rs.) in lacs
Sales	1532.50
Interest	15.00
Dividend	10.00
<b>Total Income</b>	<b>1557.50</b>
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
<b>Profit Before Taxation and Extraordinary Item</b>	<b>167.50</b>
Expenditure income - Compensation for copyright infringement	9.00
<b>Profit Before Taxation</b>	<b>176.50</b>
<b>Provision for Income Tax:</b>	
* Current income tax	25.00
* Deferred income tax	15.00
<b>Total</b>	<b>40.00</b>
<b>Profit After Tax</b>	<b>136.50</b>
Balance brought forward from last year	14.50
<b>Balance Available for Appropriations</b>	<b>151.00</b>
<b>Appropriations:</b>	
* Proposed dividend	15.00
* Current dividend tax	1.80
* General reserve	120.00
<b>Surplus Carried to Balance Sheet</b>	<b>14.20</b>

And here we will start with the first item that is the net profit before extraordinary incomes and tax, net profit before extraordinary incomes and tax and that is how much is the net profit and that is 167.5. We are have to start from here profit before tax and extraordinary items this is 167.5 lakhs, this is the one item add or less, it will be sometime adding or making less. We do not add inflows and then outflows, we say put all the items together where it is the positive item we put it open, and when you say negative item we will put it in the bracket. So, add oblique less will be doing. So, we will be or you can call it as adjustments. So, we will have to do the adjustments. So, now, in this case from this operating, we have included two incomes that is interest income and dividend income, we will have to subtract that.

So, now interest income because interest income is you call it as investing income. So, interest income how much is that is given in the profit and loss account. If you check the profit and loss account it is given there - top that is 15 lakhs, we will have to subtract. Then is the dividend income and we will have to again subtract that and if you take that into account this is 10 lakhs, we will have to subtract it, we have to put it in the bracket, so be a subtracting it. Then next item is the anything is there operating share capital - no, tax is yes, we will be taking it at the end, but dividend is no, then dividend tax is no. And then we talk about the interest received and paid and then loan and then it is the say fixed asset investing, fixed asset is that is the operating yeah that is the will be talking about



the fixed asset that is 7.25, we will be taking into consideration. So, we will have to take here is the total items.

And what are the other things now. We will have to take here that is the interest expense. Interest expense is how much interest expense, we have already calculated. And if you look at the interest expense here, so we will be talking about the interest that is operating part interest expense if you take here that is 7.25, this is interest expense we have to take here. This is operating part interest expense and this is 7.25 we have to add back, then we will subtract during the financing process. So, we have to add it back.

Then we have to deficit on the sale of fixed assets deficit on sale of fixed assets how much that deficit was deficit on the sale of fixed asset is 25,000, we will have to add back because we have to recover it from the profit and loss account so say inflow. And then we will be talking about the depreciation, yes depreciation is another part. And if you talk about the depreciation then depreciation amount is how much that is going to be 22.5. We have already calculated 22.5; we have taken this into account. Then we talk about the miscellaneous expenditure return off miscellaneous expenditure return off is how much is 4 lakhs miscellaneous expenditure is the 4 lakhs we have already calculated. And then we have made the adjustments for the income also dividend income be a subtracted deficit on the fixed assets sold, depreciation, we have taken miscellaneous expenditure we have taken.

Now, we will take the extraordinary incomes, extraordinary incomes. How much is that income extraordinary income is 9 lakhs and then is the miscellaneous expenditure incurred, miscellaneous expenditure incurred. So, on this it was inflow also and the outflow also. So, if we take this, this amount is how much miscellaneous expenditure incurred is 15 lakhs. So, this is outflow. So, we will be taken this as outflow is the total. So, it means this is the operating profit operating profit before working capital changes is how much if you adjust all these items will be able to find out the this balance works out as 170.5, 170.5 is the balance that is operating profit before working capital changes is 170.5 lakhs; 175 lakh that is the operating profit for the firm.

Now, we will be continuing with the say adjustment for working capital changes add or less working capital changes. You can write here. So, we will first take the if we talk

about the working capital part will go the balance sheet and on account of this what is the inflow and outflow that is the operating part.

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<b>Investments</b>		
Long term	99.00	105.00
Short term	43.50	21.75
	142.50	126.75
<b>Current Assets, Loans and Advances</b>		
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
<b>Less: Current Liabilities and Provisions</b>		
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
<b>Net Current Assets</b>	101.20	51.75
Miscellaneous Expenditure (To the extent not w/o)	16.00	5.00
<b>TOTAL</b>	366.20	228.50

So, we will be starting with the first item that is inventories. So, inventories are come down, it will be first item inventories. So, inventories have come down from say 78 to 28. So, we will be taking that is the decrease in inventory that is by 50. So, it is inventory is 50. So, it is the inflow of the funds, yes, decrease in the inventory is inflow of the funds. Then we will talk about the sundry debtors sundry debtors is the outflow and the outflow is in how much that is 12.5. Sundry debtors, if you take this is outflow and that is 12.5 this is the sundry debtors we have taken into account.

Then will go for the cash and bank balance is no, interest receivable yes, interest receivable is we have already taken that into account interest receivable, so that is not to be counted here because interest receivable is the investing income. So, we will be taking there that into account. So, we have taken the sundry debtors and we will be talking about the next item now that is the creditors. So, creditors have come down 94.5 to 16.5. So, we have paid them to the extent of 78 lakhs. So, it is sundry creditors that is we talk about the sundry creditors it is 78 lakhs, sundry creditors are 78 lakhs.

So, finally, if you talk about if you adjust everything here you say that is the cash you will see here you will find it out, we can remove this item these items here. So, you will find here that the cash generated from the operation is how much will continue the

statement here. Cash generated from operations, cash generated from operations is how much, if you total it up, it works out as 170, and then sundry creditor we have paid. So, it means it is a negative figure, the sundry debtors we have increased. So, we have invested more, it means just say outflow. So, total is you add it up this works out as 220, 220 minus roughly now which is 90.5. So, the balance works out as that is 133 lakhs this is the cash generated from operations that is 133 lakhs.

So, in this total cash coming from operations, you will have to subtract the some other items. These other one item is that is the you can call it as the corporate tax paid. And we have a calculated the corporate tax paid. How much is the corporate tax paid here we had found out and that was 53 lakhs, because we have shown the total 55 lakhs, 2 is paid on the behalf of skyline somebody else who has given the interest. So, total is 53 lakhs. So, it means cash from operations is 0 and it is 80 lakhs. So, it is the cash from operating activities is 80 lakhs. We have calculated that the cash from operating activities is the 80 lakhs.

If you talk about the other items here nothing is left, we have seen that the cash flow. And if you talk about we have taken the profit and in this profit we have subtracted these two incomes that is on account of interest and dividend which was not from the operations. So, we subtract because when you calculate this profit before tax and extraordinary incomes, you had added these incomes also. So, these incomes were not the operating incomes. So, we have to subtract them. So, we subtracted them here, we have subtracted these two items here, and then we have taken out the other sources of the cash inflow.

And when you talk about the other sources of cash inflow then we have taken the interest component, yes, interest component we have taken into account. Then we have taken the deficit on the sale of see this part is causing the inflow cash inflow and this is also causing the cash inflow that is the see remaining part of the assets which has been sold in the market for 70.75. So, we have taken that into account. So, we have the total of amount of depreciation which is included in this. So, it is 0.25 when 225 is on account of depreciation cash inflow is coming in.

And then we talk about the interest we have taken deficit we have taken, yes. Miscellaneous expenditure is another item, which is the inflow here, we have taken into

account we have shown is the inflow. And then the outflow also was there, because current expenditure was 15 and the outflow is in outflow is 15 and inflow is 4. So, we have taken that into account. And then we have gone through the working capital is else is left here.

The is only tax part is left here. So, text part because from operations we have talking about. So, tax part is left here. So, we will be taking that later on then we move to the working capital changes. So, when you looked at the inventory we have taken that into account. And from inventory we have seen that yes we have got the 50 lakhs of the cash. Sundry debtors have because the outflow to the extent of 12.5 then the in interest receivable, we have will be talking about in the see this investing part, and then we talk about the see loans and advances, they have come down. So, in this case, we will be taking that also into account in the financing activities.

So, here we talk about the current liabilities. When the current liabilities we will have to take the sundry creditors; and sundry creditors have come down from 94.5 to 16.5 it means 78 lakhs worth of the sundry creditors have been paid. So, it means finally, this much of the payment is made here cash has flown out. So, finally, if you adjust the working capital changes here, we had before the working capital changes, this was the net position of the cash 170.5 lakhs. And now the on account of the working capital changes, we have seen on account of inventory cashes flown in, but on account of debtors and creditors cash is flown out. So, finally, this was the cash generated from the operations 133 lakhs, 1 crore 33 lakhs, but form this the tax was also paid corporate dividend tax was also paid. So, it is 53 lakhs worth of the tax was paid.

And finally, the cash from operations of the operating activities we have generated is 80 lakhs. So, we are unable to find out the cash generation from the operating activities is 80 lakhs. And apart from this, now we will be talking about the cash generation from investing and financing activities. And for that say we will be preparing we will be continuing with the cash flow statement and we will be working out the cash flow from the investing activities from the financing activities. And then we will total it up and we do another detailed analysis also that how much has flown in from the operations how much has flown in from the investing activities. How much has flown in or flown out from the financing activities, and net balance of the 10 lakhs which is shown here in the balance sheet cash and bank balance here that is of 10 lakhs. It has come from where and

whether operations have contributed to this investing or the financing activities have contributed to this.

So, the remaining part of this cash flow statement that is the cash flow from investing activities and financing activities, I will be talking to you and discussing with you and we will be preparing in the next part of discussion.

Thank you very much.