



CMA INTERMEDIATE • PAPER 10 • CORPORATE ACCOUNTING AND
AUDITING

Student Notes

Chapter 3 • Cash Flow Statement



3 Topics • 3 Examined • 49 Classified Questions

ICMAI Study Material, Syllabus 2022 • Shuchita Scanner, 2026 July Edition

How to use this booklet

For each topic, first read the Study Material paragraphs named in the “Read first” line. Then prepare level by level — each level tells you what kind of mastery the examiner expects, and lists the exact Scanner questions to practise at that level.

Question lines show: **label • source & exam • question reference • category • marks • Scanner page**, then the **category** again in the column beside it and the **difficulty** of the question.

The category — **OQ** objective, **SN** short note, **DB** distinguish between, **DESC** descriptive, **CSQ** case scenario — is the **Scanner’s own**, printed in the book. A **{C}** after the exam reference means the question was **compulsory** in that paper.

The heading above each group names the **skill the question calls for** — **OBJECTIVE, REMEMBERING, UNDERSTANDING, APPLYING, ANALYSING, EVALUATING, CREATING**, and **PRACTICE** for a model question set by the Scanner rather than taken from a past paper. It is assigned by the SITS rubric from the directive verb and the question type. **ICMAI publishes no skill-assessment grid** for the Intermediate papers, so no weighting is implied here on the Institute’s behalf.

STUDY PRIORITY GUIDE

Chapter 3 at a Glance

This chapter carries 49 classified Scanner questions across 3 declared topics, 3 of which the examiner has actually asked. The table below breaks the chapter down by the skill each question calls for, and by the marks that skill is worth.

SKILL REQUIRED Chapter 3 • share of the chapter's 217 marks

Recall — objective questions	14.3%	31 of 217 marks • 22 questions
Remembering	5.5%	12 of 217 marks • 3 questions
Understanding	1.4%	3 of 217 marks • 2 questions
Applying	77.9%	169 of 217 marks • 21 questions
Analysing	0.9%	2 of 217 marks • 1 question

Recalling and explaining **21.2%** • applying, analysing and judging **78.8%** — this chapter reads **weighted towards application**

21% of this chapter's marks are earned by recalling and explaining, and 79% by applying, analysing and judging. Across Paper 10 as a whole the split is 57% and 43%. This chapter is examined harder than the paper as a whole. Reading it once will not earn the marks; the questions ask you to take the provision to a set of facts.

Every band is assigned by the SITS rubric v1-CMA and weighted on the marks printed in the Scanner. ICAI publishes no skill-assessment grid for the Intermediate papers, so the comparison is against this paper's own profile drawn from the Scanner, and no weighting is implied on the Institute's behalf.

SKILL REQUIRED	WHAT THE EXAMINER ASKS FOR	QUESTIONS
Recall — objective questions	recognise the right answer — Section A of the Scanner, 1 and 2 marks	22
Remembering	recall and reproduce	3
Understanding	explain with reasons	2
Applying	take the provision to the facts	21
Analysing	break down and compare	1

The Scanner's own categories for this chapter: 22 objective, 21 practical, 3 descriptive, 3 short note.

The band on each question line is SITS-assigned by written rubric. ICAI publishes no skill-assessment grid for the Intermediate papers, so no institute weighting is implied. The category beside it — OQ, SN, DB, DESC, PRAC — is the Scanner's own: OQ, SN, DB and DESC are printed in the book, and PRAC marks a question the Scanner sets under PRACTICAL QUESTIONS.

CHAPTER 3

Cash Flow Statement

Topic 1: Meaning of Cash and Cash Equivalents

CMAL2P10-C3-T01

Read first Read §3.1.4 Presentation of a Statement of Cash Flows and §3.1.12 Disclosure, ICAI Study Material Module 3, pages 260–261 and 268 — the definitions of cash and of cash equivalent, the four points that follow them, and what must be disclosed about the components.

NOTES

Cash and cash equivalents: cash consists of cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments, not for investment. An investment normally qualifies as a cash equivalent when it has a short maturity of, say, three months or less from the date of acquisition.

The exclusions from cash equivalents: equity investments are excluded unless they are, in substance, cash equivalents, because they carry a high market risk. Bank borrowings are generally financing activities; but where bank overdrafts repayable on demand form an integral part of an entity's cash management they are included as a component of cash and cash equivalents, the mark of such an arrangement being that the balance fluctuates from being positive to overdrawn. Investments in call money market, money market mutual funds, repo and badla transactions are usually classified as cash equivalents.

Movements between cash items are not cash flows at all: cash flows exclude movements between items that constitute cash or cash equivalents, because those components are part of the cash management of an entity rather than part of its operating, investing or financing activities. So where a company uses its bank balance to buy a three-month bank deposit, nothing whatever appears in the statement of cash flows — the balance has simply moved from one component of cash and cash equivalents to another. The same reasoning keeps a transfer from cash in hand to a current account out of the statement.

The disclosure of the components: an entity shall disclose the components of cash and cash equivalents and present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet. It must also disclose, with a commentary by management, the amount of significant cash and cash equivalent balances that are not available for use by it — for instance a balance held by a subsidiary in a country with exchange controls. Management shall further disclose the amount of undrawn borrowing facilities available for

future operating activities and to settle capital commitments, with any restrictions on their use.

The effect of exchange rates, which is a reconciling item and not a cash flow: cash flows arising from a transaction in a foreign currency are recorded in the entity's functional currency by applying the exchange rate **at the date of the cash flow**, a rate that approximates the actual rate being permitted where the result is substantially the same. **The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency is reported as a separate part of the reconciliation** of the changes in cash and cash equivalents during the period — it is shown after the closing figure, not inside operating activities.

OBJECTIVE recognise the right answer — Section A of the Scanner, 1 and 2 marks • 1 question

- One objective sits here, the 2022-Dec question on how an **increase in bank overdraft** is treated, and the answer keyed is **inflow from financing activities**. It turns on the general rule that bank borrowings are financing; the exception, that an overdraft repayable on demand and forming an integral part of cash management is part of cash and cash equivalents, is the Ind AS 7 position.
- Where an option list offers both 'increase in cash and cash equivalents' and 'inflow from financing activities', ask which standard the question is written under. Under **AS 3** the overdraft is a borrowing; **Ind AS 7 specifically includes overdrafts repayable on demand** in cash and cash equivalents. Carry both sentences.

OQ • PYQ 2022-Dec [1] (a) (iv) • 1M • Pg 187

OQ
Objective

Easy

UNDERSTANDING explain with reasons • 1 question

- The one Section B question here is the two-mark 2013-Dec question asking what the expression **cash equivalent** means. Two marks, and the answer is the definition verbatim — short-term highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.
- Add the two sentences that turn a definition into full marks: an investment of **short maturity, say three months or less from the date of acquisition**, is generally a cash equivalent, and **equity investments are not**, because of high market risk. Naming call money market, money market mutual funds and repo transactions as examples costs one line and shows the point is understood.

TQ 1.1 • PYQ 2013-Dec [3] (a) {C} • 2M • Pg 191

DESC
Descriptive

Easy

Topic 2: Objective, Benefits, types of cash flows

CMAL2P10-C3-T02

Read first Read §3.1.1 to §3.1.6, ICAI Study Material Module 3, pages 260–265 — the objective and scope of AS 3, the benefits of cash flow information, the three classifications with their examples, and the two cases in which flows may be reported on a net basis.

NOTES

The purpose of the statement: the cash flow statement exhibits the **flow of incoming and outgoing cash and cash equivalents** and assesses the ability of the enterprise to **generate and utilise cash**, so it is an important tool for judging the **liquidity position and the sources of liquidity**. The information provided, used with the related disclosures and the other financial statements, should help investors and creditors to assess the ability to **generate positive future net cash flows**; the ability to **meet obligations, pay dividends and meet the need for external financing**; the **reasons for differences between net income and the associated cash receipts and payments**; and the effects of both cash and **non-cash investing and financing transactions** on financial position.

The benefits of cash flow information under AS 3: used with the rest of the financial statements it lets users evaluate the **changes in net assets** of an entity, its **financial structure including liquidity and solvency**, and its ability to **affect the amounts and timing of cash flows** in order to adapt to changing circumstances and opportunities. It lets users develop models to **compare the present value of the future cash flows** of different entities and **enhances comparability**, because it eliminates the effects of different accounting treatments for the same transactions. Historical cash flow information is an indicator of the **amount, timing and certainty** of future cash flows and is used in checking the accuracy of past assessments.

The objective and the scope of the Standard: the objective is to require the provision of information about the **historical changes in cash and cash equivalents** of an entity by means of a statement of cash flows **which classifies cash flows during the period from operating, investing and financing activities**. On scope, **all AS compliant entities** shall prepare a statement of cash flows in accordance with the Standard and shall present it as an **integral part of the financial statements** for each period for which financial statements are presented. Under Section 2(40) a one person company, a small company and a dormant company need not include it.

Head	What it is
Operating activities	The principal revenue-producing activities of the entity, and other activities that are not investing or financing; they generally result from the transactions that enter into the determination of profit or loss
Investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents; only expenditure resulting in a recognised asset in the balance sheet qualifies
Financing activities	Activities that result in changes in the size and composition of the owners' capital and the borrowings of the organisation

The borderline cases in the three heads: cash received on the sale of an item of plant is **investing**. Cash flows from the purchase and sale of **dealing or trading securities** are **operating**, and so are **cash advances and loans made by a financial institution**, because they relate to its main revenue-producing activity. Sale of a **copyright** or of an investment in a subsidiary is investing, as is the purchase of **goodwill** and the payment of a **licence fee**. Rent received on letting out free space is investing. **Cash receipts from other parties in repayment of loans made to them are investing, not operating**. The sum of the three heads is the **net change in cash and cash equivalents** for the period.

Reporting on a net basis — the exception to gross reporting: investing and financing flows are normally reported as **major classes of gross receipts and gross payments**, but cash flows may be reported **net** in two cases: **(a) receipts and payments on behalf of customers where the cash flows reflect the activities of the customer rather than those of the entity** — the acceptance and repayment of demand deposits of a bank, funds held for customers by an investment entity, and rents collected on behalf of and paid over to the owners of properties; and **(b) receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short** — principal amounts relating to credit card customers, the purchase and sale of investments, and other short-term borrowings with a maturity of three months or less.

The further net-basis relaxation for a financial institution: cash flows arising from each of the following activities of a financial institution may also be reported on a net basis — **cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date; the placement of deposits with, and withdrawal of deposits from, other financial institutions; and cash advances and loans made to customers and the repayment of those advances and loans**.

Non-cash transactions are excluded, but disclosed elsewhere: investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a **statement of cash flows** and disclosed elsewhere in the financial statements in a way that provides all the relevant information about them. The three examples given are the **acquisition of assets by assuming directly related liabilities**, the **acquisition of an entity by means of an equity issue**, and the **conversion of debt to equity**. On the same reasoning a **bonus issue**, machinery bought by issuing shares, and the **revaluation of a fixed asset** do not appear in the statement at all.

OBJECTIVE recognise the right answer — Section A of the Scanner, 1 and 2 marks • 5 questions

- Five objectives sit here, and three of them are answered by the single word **operating**: payment to suppliers of machinery is **not** an operating flow, cash receipts from other parties in repayment of loans are **not** operating, and a business must generate a positive net cash flow from operating activities to survive in the long run. Read the stem for the word 'not' before you answer.
- The other two are a placement and a rule. The **sale of a copyright** is investing, because a copyright is a long-term asset. And the flows that may be reported **on a net basis** are those on behalf of customers where the flows reflect the activities of the customer rather than those of the entity, and those in which turnover is quick, the amounts are large and the maturities are short.

OQ · PYQ 2017-Jun [1] (a) (vi) · 1M · Pg 185	OQ Objective	Easy
OQ · PYQ 2021-Dec [7] · 1M · Pg 186	OQ Objective	Easy
OQ · PYQ 2024-Jun [1] (iv) {C} · 2M · Pg 188	OQ Objective	Easy
OQ · MQP 2024-Dec S1 [1] (iii) · 2M · Pg 189	OQ Objective	Easy
OQ · MQP 2024-Dec S2 [1] (iii) · 2M · Pg 189	OQ Objective	Easy

REMEMBERING recall and reproduce · 3 questions

- Three four-mark short notes sit here and they are close cousins — the **objective of preparing a cash flow statement** (2017-Jun), the **reasons for preparation of cash flows** (2019-Jun), and the **different types of cash flows in a cash flow statement** (2022-Dec). Twelve marks for three lists.
- For the first two, answer with a numbered list of seven or so points: liquidity, flexibility and the ability to generate future cash flow; the ability to meet future obligations; comparability among firms; the reliability of net profit and the quality of earnings; how assets and liabilities have moved; the projection of future cash flow streams; and information on the different types of cash flow.
- For the third, the answer is the **three heads with a one-line definition of each** and the sentence that the sum of the three reflects the net increase or decrease in cash and cash equivalents. Operating activities are defined negatively — they include all transactions that are not defined as investing or financing — and saying so is worth a mark.

TQ 2.2 · PYQ 2017-Jun [5] (d) · 4M · Pg 192	SN Short note	Easy
TQ 2.3 · PYQ 2019-Jun [5] (a) · 4M · Pg 192	SN Short note	Easy
TQ 2.5 · PYQ 2022-Dec [5] (d) · 4M · Pg 193	SN Short note	Easy

UNDERSTANDING explain with reasons · 1 question

- The single question here is the one-mark 2021-Dec question asking which of the three activities may be reported **on a net basis** and to **name one item**. The stem asks for one item, so give one — for instance the acceptance and repayment of demand deposits of a bank.
- The same question is printed again among the objective questions, so it is worth learning as a sentence rather than a list: receipts and payments on behalf of customers where the flows reflect the activities of the customer rather than those of the entity, or items in which turnover is quick, the amounts are large and the maturities are short.

TQ 2.4 · PYQ 2021-Dec [7] · 1M · Pg 193	DESC Descriptive	Easy
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ANALYSING break down and compare · 1 question

- The two-mark 2014-Dec question asks you to **state the classification of cash flow activities as per AS 3**, and the keyed answer is three lines — cash flow from operating activity, from investing activity and from financing activity. Two marks, three lines, and nothing more is wanted.
- Where the same instruction is given at four marks or more, add one sentence of definition against each head and one example of each. What lifts a classification answer is the **borderline case**: say that a financial enterprise's advances and loans are operating rather than investing, because they are its principal revenue-producing activity.

TQ 2.1 · PYQ 2014-Dec [1] (a) · 2M · Pg 191

DESC
Descriptive

Medium

Topic 3: Preparation of Cash Flow Statement (AS - 3 and Ind AS -7)

CMAL2P10-C3-T03

FREQUENCY TABLE CORRECTED — the Scanner's table at page 182 counts 23 against this topic; the book carries 24 appearances — the questions printed under it and the earlier sittings listed against them. These notes follow the book.

Read first Read §3.1.5 to §3.1.11, §3.2 and §3.3, ICAI Study Material Module 3, pages 262–273 — the direct and indirect methods, the rules for interest, dividends and tax, non-cash transactions, the AS 3 against Ind AS 7 comparison on pages 269–270, and the two proformas on pages 271–273.

NOTES

The two methods, and what each one does to operating activities: an entity shall report cash flows from operating activities using either **the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed**, or **the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows**. Investing and financing activities are presented identically under both; **only the operating section differs**.

Particulars	₹
A. Cash Flows from Operating Activities	
Net Profit for the Period before Taxation and Extraordinary Items	–
Add: Adjustment for non-current and non-operating items charged to Profit and Loss A/c — Depreciation	–

Interest paid	-
Foreign Exchange Loss	-
Loss on Sale of Fixed Assets and Investments	-
Less: Adjustment for non-current and non-operating items credited to Profit and Loss A/c — Interest Earned	-
Dividend Earned	-
Profit on Sale of Fixed Assets and Investments	-
Operating Profit before Working Capital Changes	-
Add: Increase in Current Liabilities	-
Decrease in Current Assets	-
Less: Increase in Operating Current Assets	-
Decrease in Operating Current Liabilities	-
Cash Generated from Operations	-
Less: Income Tax Paid	-
Add: Proceeds from any Disaster Settlement	-
Net Cash Flow from Operating Activities	-
B. Cash Flows from Investing Activities	
Proceeds from Sale of Fixed Assets including Investments	-
Less: Purchase of Fixed Assets including Investments	-
Add: Interest Received	-
Dividends Received	-
Net Cash Flow from Investing Activities	-

C. Cash Flows from Financing Activities	
Proceeds from issuance of Share Capital	-
Proceeds from Long-term Borrowings	-
Less: Repayment of Long-term Borrowings including Redemption of Preference Shares	-
Less: Interest Paid	-
Dividend Paid	-
Net Cash Flow from Financing Activities	-
Net Increase in Cash and Cash Equivalents (A + B + C)	-
Add: Cash and Cash Equivalents at the beginning of the period	-
Cash and Cash Equivalents at the end of the period	-

Working the indirect proforma from the top: start at **net profit before taxation and extraordinary items**. Where only the opening and closing balances of Profit and Loss are available, build that figure first — closing balance less opening balance, **add back** the transfer to general reserve, the provision for taxation made during the year, the proposed dividend and any interim dividend, because each is an appropriation already taken out of the profit. Then add back the **non-cash and non-operating charges** — depreciation, amortisation of goodwill and preliminary expenses, discount on issue of debentures written off, premium on redemption written off, foreign exchange loss, loss on sale of fixed assets and investments, and interest paid. Then deduct **interest earned, dividend earned and profit on the sale of fixed assets and investments** to reach the **operating profit before working capital changes**.

The working-capital adjustments and their signs: from the operating profit before working capital changes, **add a decrease in a current asset** and **add an increase in a current liability**; **deduct an increase in a current asset** and **deduct a decrease in a current liability**. The rule holds for inventories, trade receivables, bills receivable, prepaid expenses, trade payables, bills payable, outstanding expenses and income received in advance alike. Cash and bank balances are **not** working capital items here — they are the answer, not an adjustment. Where a provision for doubtful debts also moves, adjust the receivables figure for that movement before taking the difference. The result is **cash generated from operations**, from which **income tax paid** is deducted.

The close of the statement, and the two items after tax: after income tax paid the line struck is **cash flow before extraordinary items; proceeds from a disaster settlement**, such as insurance proceeds from an earthquake, are then added to give **net cash from operating activities**. Under AS 3 cash flows associated with extraordinary items are **separately classified** as arising from operating, investing or financing activities as the case may be; Ind AS 7 has no such requirement. The three totals are then added, the **net increase or decrease in cash and cash equivalents** struck, the **opening balance** added, and the **closing balance** shown — and that closing figure must agree with the balance sheet.

Particulars	₹
A. Cash Flows from Operating Activities	
Cash receipts from Customers	–
Less: Cash paid to Suppliers and Employees and for other expenses	–
Cash Generated from Operations	–
Less: Income Tax Paid	–
Cash Flows from Operations before Extraordinary Items	–
Add: Proceeds from any Disaster Settlement	–
Net Cash Flow from Operating Activities	–
B. Cash Flows from Investing Activities	
Proceeds from Sale of Fixed Assets including Investments	–
Less: Purchase of Fixed Assets including Investments	–
Add: Interest Received	–
Dividends Received	–
Net Cash Flow from Investing Activities	–
C. Cash Flows from Financing Activities	
Proceeds from issuance of Share Capital	–
Proceeds from Long-term Borrowings	–

Less: Interest Paid	-
Dividend Paid	-
Net Cash Flow from Financing Activities	-
Net Increase in Cash and Cash Equivalents (A + B + C)	-
Add: Cash and Cash Equivalents at the beginning of the period	-
Cash and Cash Equivalents at the end of the period	-

Figure wanted	How it is derived
Cash receipts from customers	Sales, add opening trade receivables, less closing trade receivables; where a percentage of sales is on credit, split cash sales out first and put only the credit sales through the receivables account, after deducting bad debts written off net of the movement in the allowance
Cash paid to suppliers	Cost of goods sold, add the increase in inventory, to give purchases; then add opening trade payables and deduct closing trade payables — or simply deduct the increase in payables
Cash paid to employees	Salaries expense, add the decrease in salaries payable (or deduct the increase)
Cash paid for an expense	The expense, add the increase in the prepaid amount, add the decrease in the outstanding amount
Interest paid	Interest expense for the year, add interest payable at the beginning, less interest payable at the end; add back any amortisation of premium on bonds payable
Income taxes paid	Tax expense for the year, less any deferred tax, add the income tax liability at the beginning, less the liability at the end

Item	A financial institution
Interest paid	Operating
Interest received	Operating
Dividend received	Operating
Dividend paid	Financing
Taxes on income	Operating, unless specifically identifiable with financing or investing activities, when that part follows the activity it belongs to
Disclosure	Cash flows from interest and dividends received and paid are each disclosed separately

Point	AS 3
Applicability	Not mandatory for small and medium sized companies as defined in the Notification, though they are encouraged to comply
Bank overdrafts repayable on demand	Silent on repayment of overdraft on demand
Currency	Uses the term 'Reporting Currency'
Foreign subsidiaries	Does not deal with cash flows arising from foreign subsidiaries
Assets held for rental and then for sale	No requirement
Further examples of financing flows	Not given
Indirect method adjustments	Silent on adjusting profit or loss for undistributed profits of associates and non-controlling interests
Change in ownership interest in a subsidiary without loss of control	Classified under investing activities
Extraordinary activities	Cash flows associated with extraordinary activities are separately classified as arising from

	operating, investing and financing activities
Disclosure on obtaining or losing control	Not required

Taxes on income: cash flows arising from taxes on income shall be **separately disclosed** and shall be classified as cash flows from **operating activities unless they can be specifically identified with financing and investing activities**. So where advance tax of ₹3,65,000 includes ₹15,000 relating to a short-term capital gain on the sale of securities, ₹3,50,000 is an operating outflow and ₹15,000 an investing outflow. Tax deducted at source on dividends received follows the dividend into investing. It is the **tax paid** that enters the statement, never the provision: the provision is added back as an appropriation and the payment is found from the Provision for Taxation Account.

Subsidiaries, associates and joint ventures: where an investment in an associate, a joint venture or a subsidiary is accounted for by the **equity or cost method**, the investor restricts its reporting in the statement of cash flows to the **cash flows between itself and the investee**, for example dividends and advances. **The aggregate cash flows arising from the acquisition and from the disposal of subsidiaries or other businesses shall be presented separately and classified as investing activities**, and the entity shall disclose **the total purchase or disposal consideration and the portion of that consideration consisting of cash and cash equivalents**. Where a business is acquired for a consideration paid in shares, no cash has moved and nothing enters the statement, but the inventory and machinery taken over must be removed from the working-capital movement before it is used.

OBJECTIVE recognise the right answer — Section A of the Scanner, 1 and 2 marks · 16 questions

- Sixteen of the chapter's twenty-two objective questions sit here, and **three of the sixteen are the same question** — where a finance company's interest received on loans is shown. It was set in 2017-Jun as a true or false, in 2017-Dec, and again word for word in 2026-Jun; the answer is **cash flow from operating activities**. A fourth adds that interest and dividend received are not financing.
- Four are about items that never reach the statement. **Charging depreciation** is not a component of a cash flow statement; **revaluation of fixed assets does not appear in it at all**; machinery purchased by issuing shares is not an investing cash flow; and depreciation is added back only because it is a **non-cash expenditure**.
- Two are small computations set as objectives. Net profit ₹15,000 with interest received in advance rising from ₹2,000 to ₹3,000 gives cash from operations of **₹16,000** — the increase in a current liability is added. Net profit ₹50,000 with bills receivable down by ₹10,000 gives **₹60,000** — a decrease in a current asset is added. Both test the sign, not the arithmetic.
- The rest place a single item: **payment of income tax is not financing**; **interest on foreign bonds received by a manufacturing company is investing**; and the statement **begins with operating activity**. Three turn on the **direct method**: collection from customers and payment to suppliers are both operating there, and a decrease in current liabilities is **deducted** from operating cash flow.

OQ • PYQ 2017-Jun [1] (c) (iii) • 1M • Pg 185	OQ Objective	Easy
OQ • PYQ 2017-Dec [1] (a) (i) • 1M • Pg 185	OQ Objective	Easy
OQ • PYQ 2017-Dec [1] (c) (iv) • 1M • Pg 185	OQ Objective	Easy
OQ • PYQ 2018-Jun [1] (a) (ii) • 1M • Pg 186	OQ Objective	Easy
OQ • PYQ 2019-Jun [1] (a) (iii) • 1M • Pg 186	OQ Objective	Easy
OQ • PYQ 2019-Jun [1] (c) (iv) • 1M • Pg 186	OQ Objective	Easy
OQ • PYQ 2021-Dec [17] • 1M • Pg 187	OQ Objective	Easy
OQ • PYQ 2023-Jun [1] (a) (i) • 1M • Pg 187	OQ Objective	Easy
OQ • PYQ 2023-Jun [1] (b) (ii) • 1M • Pg 187	OQ Objective	Easy
OQ • MQP 2023-Jun S1 [1] (b) (ii) • 1M • Pg 188	OQ Objective	Easy
OQ • PYQ 2023-Dec [1] (a) (ii) {C} • 2M • Pg 188	OQ Objective	Easy
OQ • MQP 2024-Jun S1 [1] (iii) • 2M • Pg 188	OQ Objective	Easy
OQ • MQP 2024-Jun S1 [1] (v) • 2M • Pg 189	OQ Objective	Easy
OQ • PYQ 2025-Jun [1] (iii) {C} • 2M • Pg 189	OQ Objective	Easy
OQ • PYQ 2025-Dec [1] (v) {C} • 2M • Pg 189	OQ Objective	Easy
OQ • PYQ 2026-Jun [1] (v) {C} • 2M • Pg 190	OQ Objective	Easy

APPLYING take the provision to the facts • 21 questions

- Twenty practical questions sit here carrying **162 marks**, against 24 marks for the whole of the rest of the chapter's Section B put together. Nothing in this topic can be prepared by reading it; it is prepared by working the sums with a pen.
- The marks changed shape with the syllabus. Up to 2023-Jun the question ran between eight and twelve marks and usually sat at question 3(a); from 2023-Dec onwards **every question has been seven marks at question 5(b)** — eight of them in a row, model papers included. Seven marks buys the operating section and a short statement, not a treatise.
- Six of the twenty ask for **cash flow from operating activities alone**. Read the requirement before you draw the proforma: writing out investing and financing sections for a question that asked only for

operating earns nothing, and the 2021-Dec twelve-mark question is the opposite case, asking for funds from operation **and** all three sections separately.

- Two questions are the same question twice. The 2019-Dec eight-mark question on M Limited and the 2024-Dec seven-mark question on Y Ltd give the same five items — net profit of ₹10 lakhs, discount on debentures ₹15,000, interest on debentures ₹1,75,000, investments of ₹1,50,000 sold for ₹1,60,000, and interest received ₹30,000 — and both arrive at operating cash flow of **₹8,67,000**. The later one replaces the list of current assets and liabilities with a single figure for **non-cash working capital**.
- The recurring losses are always the same four: an **appropriation** not added back when the profit figure is built from two balance sheet balances; the **sign** of a working-capital movement reversed; a **loss on sale** deducted instead of added; and the **provision** for tax used in place of the tax **paid**. Show the Provision for Taxation Account and the Machinery Account as working notes and three of the four cannot happen.

PQ 3.1 • PYQ 2013-Dec [4] (a) (ii) • 4M • Pg 194	PRAC Practical	Medium
PQ 3.14 • PYQ 2023-Dec [5] (b) • 7M • Pg 222	PRAC Practical	Medium
PQ 3.15 • MQP 2023-Dec S2 [5] (b) • 7M • Pg 223	PRAC Practical	Medium
PQ 3.16 • PYQ 2024-Jun [5] (b) • 7M • Pg 226	PRAC Practical	Medium
PQ 3.17 • PYQ 2024-Dec [5] (b) • 7M • Pg 227	PRAC Practical	Medium
PQ 3.18 • MQP 2024-Dec S1 [5] (b) • 7M • Pg 228	PRAC Practical	Medium
PQ 3.19 • MQP 2024-Dec S2 [5] (b) • 7M • Pg 231	PRAC Practical	Medium
PQ 3.20 • PYQ 2025-Jun [5] (b) • 7M • Pg 234	PRAC Practical	Medium
PQ 3.21 • PYQ 2026-Jun [5] (b) • 7M • Pg 235	PRAC Practical	Medium
PQ 3.2 • PYQ 2014-Jun [4] (c) (ii) • 10M • Pg 196	PRAC Practical	Hard
PQ 3.3 • PYQ 2014-Dec [3] (c) (ii) • 8M • Pg 198	PRAC Practical	Hard
PQ 3.4 • PYQ 2015-Jun [3] (c) (i) • 10M • Pg 200	PRAC Practical	Hard
PQ 3.5 • PYQ 2016-Jun [4] (a) • 9M • Pg 203	PRAC Practical	Hard
PQ 3.6 • PYQ 2016-Dec [5] (a) • 9M • Pg 205	PRAC Practical	Hard
PQ 3.7 • PYQ 2017-Jun [3] (a) • 9M • Pg 207	PRAC Practical	Hard

PQ 3.8 • PYQ 2018-Jun [3] (a) • 8M • Pg 210	PRAC Practical	Hard
PQ 3.9 • PYQ 2018-Dec [3] (a) • 9M • Pg 212	PRAC Practical	Hard
PQ 3.10 • PYQ 2019-Dec [3] (a) • 8M • Pg 214	PRAC Practical	Hard
PQ 3.11 • PYQ 2021-Dec [1] • 12M • Pg 216	PRAC Practical	Hard
PQ 3.12 • PYQ 2022-Dec [3] (a) • 9M • Pg 220	PRAC Practical	Hard
PQ 3.13 • PYQ 2023-Jun [3] (a) • 8M • Pg 221	PRAC Practical	Hard