To Plant & Machinery (Dep. on assets sold)	40,000	By Balance b/d	4,24,000
To Statement of Adjusted P/L (Excess Dep. Charged) (Bal. fig.)	39,000	By Statement of Adjusted P/L (Dep. for the year)	66,000
To Balance c/d	4,11,000		
	4,90,000		4,90,000

Plant and Machinery Account

Dr.	₹	Cr.	₹
To Balance b/d (₹ 4,26,000 + 4,24,000)	8,50,000	By Provision for Depreciation on Assets sold	40,000
To Cash Purchase of Plant and Machinery (Bal. fig.)	44,000	By Cash (Asset sold)	20,000
		By Statement of Adjusted P/L (Loss) (₹ 70,000 – 40,000 – 20,000)	10,000
		By Balance c/d (₹ 4,13,000 + 4,11,000)	8,24,000
	8,94,000		8,94,000

17. GOODWILL

If the amount of Goodwill increases during current year, the difference is treated as Purchase of Goodwill. If this purchase has been made on cash basis, it is shown as Application of Funds in Fund Flow Statement. However, if goodwill has been purchased by issuing shares or debentures, it will be ignored because there will be no Flow of Funds due to such transaction. On the other hand, if the amount of goodwill decreases during current year, it will be treated as Goodwill Written off and will be added to profit in Statement of Adjusted Profit and Loss.

18. IS DEPRECIATION A SOURCE OF FUNDS ?

A big controversy has arisen during recent year whether provision for depreciation should be considered as a source of funds or not ? Here both the aspects of this concept are analysed.

(a) Depreciation is not a Source of Funds : Some people argue that depreciation is not a source of funds because neither the current assets nor the current liabilities are affected on providing depreciation, only the fixed assets and the current years profits are decreased by the amount of depreciation. For this, depreciation is charged to the Statement of Profit and Loss while the Fixed Assets Account is credited with the amount of depreciation.

Since both Statement of Profit and Loss and the Fixed Assets Account are non-current account, depreciation is a non-fund item and hence it can not be considered as a source of funds.

The depreciation is added back to the profits merely to determine the actual working capital flow from operations. Since the profits are ascertained after debiting the item 'depreciation' which does not affect the working capital. If the depreciation were a source of funds, all enterprises having shortage of funds could have improved their financial position by providing more and more depreciation.

As per the above discussion, depreciation is not a sources of funds.

(b) Depreciation is a Source of Funds : On the other hand, there are some people who argue that depreciation is a source of funds and give the following arguments in support of their point of view :

(i) Most business expenses require an expenditure of cash but depreciation expense does not require cash at the time the expense amount is charged against income. So while charging the depreciation against the sale revenue of the firm, the firm is not paying cash to the outsiders. Thus, the firm saves the cash and thus it is a source of funds.

(ii) Depreciation is an item of cost deductible from income for tax purposes. Income-tax liability is reduced by a charge of depreciation. Whatever money is saved by way of taxes on account of depreciation charge, can be treated as a source of funds. Thus, fund flow from depreciation is the opportunity saving of cash outflow through taxation.

(iii) If fixed assets are taken on hire, the management would have paid rent for it which has been saved on account of owning the asset, hence depreciation is a substitute charge in case of owning the asset, which could have resulted in an outflow in the form of rent, if fixed assets would have been taken on hire. This saving may be assumed as a source of funds.

(iv) In case of manufacturing concern, when current assets include closing inventories and the value of closing inventories includes the depreciation on fixed assets as an element of cost, depreciation acts as a source of funds in such a case.

SPECIAL ILLUSTRATIONS

PREPARATION OF MACHINERY A/C

Illustration 27

The opening and closing balances in Machinery Account were ₹ 60,000 and ₹ 85,000 respectively. ₹ 8,500 depreciation has been charged in the year 2012. One old machine (W.D.V ₹ 3,500) has been sold out for ₹ 5,000. How much fund has been applied during the year 2012 for purchase of machinery ? *(R. U., B.Com. Hons., 2006)*

Solution

Dr. **Machinery Account** *Cr.*

Particulars	₹	*Particulars*	₹
To Balance b/d	60,000	By Depreciation	8,500
To Profit on Sale of Old Machine (₹ 5,000 – 3,500)	1,500	By Bank (Sale of Old Machine)	5,000
To Bank (Purchase of Machinery, Bal. fig)	37,000	By Balance c/d	85,000
	98,500		98,500

CALCULATION OF FUNDS FROM OPERATION

Illustration 28

A Company presents the following informations and you are required to calculate Funds from Operation from them :

Statement of Profit & Loss

Particulars		₹	₹
Revenue from Operations		1,50,000	
Add : Other Income (Income on Sale of Building)		20,000	1,70,000
Less : *Expenses* :			
Salaries	₹ 40,000		
Add : Outstanding	10,000	50,000	
Depreciation		40,000	
Advertisement Suspense A/c		5,000	
Discount		2,000	
Discount on Issue of Shares		500	
Goodwill Written off		1,000	
Preliminary Expenses Written off		500	
Statement of Profit and Loss (Dr.)		2,000	
Patent Written off		3,000	1,04,000
Net Profit before Tax			66,000
Less : Taxes			—
Net Profit after Tax			66,000
Appropriation of Profits :			
Proposed Dividend			– 5,000
Profit during the year			61,000

Solution

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Net Profit for the year		61,000
Add : *Non-operating Expenses* :		
Depreciation	40,000	
Advertisement Suspense A/c	5,000	
Discount on Issue of Shares	500	
Goodwill Written off	1,000	
Preliminary Expenses Written off	500	
Statement of Profit & Loss (Dr.)	2,000	
Patent Written off	3,000	
Proposed Dividend	5,000	+ 57,000
		1,18,000
Less : *Non-operating Income* :		
Gain on Sale of Building		– 20,000
Funds from Operation		98,000

Illustration 29

From the following informations, calculate Funds from Operations :

	₹
Net Loss	25,000
Depreciation on Plant	40,000
Amortisation of Goodwill	4,000
Loss on Sale of Furniture	3,000
Profit on Sale of Land	8,500
Provision for Bad Debts	4,500
Salaries including O/s	2,000
Tax Payable	1,000
Provision for Legal Damages	2,000
Commission	500
Refund of Tax	2,500

(*B.N.M.U.*, 1998)

Solution

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Net Loss		(25,000)
Add : Non-operating Expenses / Non-cash Expenses :		
Depreciation on Plant	40,000	
Amortisation of Goodwill	4,000	
Loss on Sale of Furniture	3,000	47,000
		22,000
Less : Non-operating Income :		
Profit on Sale of Land	8,500	
Refund of Tax	2,500	– 11,000
Fund from Operation		11,000

Note : Provision for bad debts, tax payable and provision for legal damages have been treated as current liabilities.

Illustration 30

Calculate Funds from Operations of the following informations as on 31st Dec., 2012 :

(a) Net profit for the year ended 31st Dec., 2012 ₹ 7,50,000.

(b) Profit on the Sale of Plant ₹ 45,000.

(c) Goodwill ₹ 1,90,000 out of that 10% has been written off during the year.

(d) Old furniture worth ₹ 6,480 has been sold for ₹ 4,480 during the year.

(e) ₹ 1,20,000 have been transferred to General Reserve Fund.

(f) Depreciation has been provided during the year on Plant and Machinery at 10% whose total cost is ₹ 5,00,000.

Solution

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Net Profit for the year ended 31st Dec., 2012		7,50,000
Add : Non-operating or Non-cash Expenses :		
Goodwill	19,000	
Loss on Sale of Furniture (₹ 6,480 – 4,480)	2,000	
Transfer to General Reserve	1,20,000	
Depreciation on Plant & Machinery	50,000	1,91,000
		9,41,000

Less : Non-operating Income :		
Profit on Sale of Plant		45,000
Funds from Operation		8,96,000

Illustration 31

The Profit and Loss Statement balance in the Balance Sheet of 2012 is ₹ 16,000. It has been ₹ 13,000 in the Balance Sheet of 2011. During the year 2012 ₹ 2,000 was transferred to General Reserve, ₹ 3,000 paid as dividend. Profit and Loss Statement for the year 2012 was debited with *inter alia* the following items :

Depreciation	₹ 4,000
Loss on Sale of Machine	₹ 2,000
Goodwill written off	₹ 1,000

Find out profit from operation. (*R.U., B.Com. Hons.*, 1997; *Magadh*, 2015)

Solution

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Statement of Profit and Loss (Balance) (₹ 16,000 – 13,000)		3,000
Add : Non-operating or Non-cash Expenses :		
General Reserve	2,000	
Interim Dividend	3,000	
Depreciation	4,000	
Loss on Sale of Machine	2,000	
Goodwill Written off	1,000	12,000
		15,000
Less : Non-operating Income		—
Funds from Operation		15,000

Illustration 32

From the following Balance Sheets and additional informations, you are required to calculate Funds from Operation for the year ending 2012 :

Balance Sheets

(*as at* 31*st March*, 2011 and 2012)

Particulars	*Note No.*	2012	2011
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Sharholders' Funds :*			
Share Capital		2,00,000	1,80,000
General Reserve		20,000	20,000
Statement of Profit & Loss		35,000	30,000
2. *Non-current Liabilities :*			
5% Debenture		70,000	70,000
3. *Current Liabilities :*			
Tax Payable		10,000	5,000
Trade Payables (Creditors)		45,000	40,000
Total (1 + 2 + 3)		3,80,000	3,45,000

II. *ASSETS*			
1. *Non-current Assets :*			
Fixed Assets :			
Land & Building } Tangible		80,000	80,000
Plant & Machinery } Tangible		90,000	80,000
Goodwill (Intangible)		20,000	24,000
2. *Current Assets :*			
Inventory (Stock)		1,00,000	80,000
Trade Receivables (Debtors)		40,000	80,000
Investment		40,000	—
Cash & Cash Equivalents :			
Cash		10,000	1,000
Total (1 + 2)		3,80,000	3,45,000

Additional Informations :

(a) During 2012 dividend of ₹ 10,000 were distributed.

(b) Depreciation written-off on Plant and Machinery amounted to ₹ 5,000.

(c) Provision for Tax made during the year ₹ 5,000.

(d) Profit on Sale of Machinery of ₹ 1,000.

Solution **Statement of Adjusted Profit and Loss**

Particulars	₹	₹
Statement of Profit & Loss (Balance) (₹ 35,000 – 30,000)		5,000
Add : Non-operating / Non-cash Expenses :		
Depreciation	5,000	
Dividend	10,000	
Goodwill (₹ 24,000 – 20,000)	4,000	19,000
		24,000
Less : Non-operating Income :		
Profit on Sale of Machinery		– 1,000
Funds from Operation		23,000

Note : Provision for Tax has been treated as Current Liabilities.

STATEMENT OF CHANGES IN WORKING CAPITAL

Illustration 33

The following items are extracted from the Balance Sheet of Sarat Ltd. as on 31st March :

	2016	2017
	₹	₹
Sundry Creditors	60,000	70,000
Sundry Debtors	1,20,000	1,50,000
B/R	8,000	6,000
B/P	5,000	3,000
P. P. Expenses	1,000	2,000
O/s Expenses	2,000	1,000
Stock	1,60,000	1,50,000
Investment (L. T.)	—	20,000
Preliminary Exp.	20,000	15,000
Goodwill	8,000	6,000

Prepare Schedule of Working Capital Changes. (*J.P.N.U., B.Com. Hons.,* 1994)

Solution

Statement of Changes in Working Capital
(for the year ending 31st March, 2017)

	2016	2017	Effect on W. C.	
			Increase	Decrease
Current Assets :	₹	₹	₹	₹
S. Debtors	1,20,000	1,50,000	30,000	—
B/R	8,000	6,000	—	2,000
P. P. Exp.	1,000	2,000	1,000	—
Stock	1,60,000	1,50,000	—	10,000
	2,89,000	3,08,000		
Current Liabilities :				
S. Creditors	60,000	70,000	—	10,000
B/P	5,000	3,000	2,000	—
O/s Exp.	2,000	1,000	1,000	—
	67,000	74,000		
Net Increase in W. C.				12,000
			34,000	34,000

Illustration 34

Current Assets and Current Liabilities extracted from the comparative B/S of X Ltd. for 2016 and 2017 are :

	31st March	
	2016	2017
Assets :	₹	₹
Cash in hand	3,000	4,000
B/R	6,000	8,000
Book Debts	20,000	25,000
Investments	6,000	3,000
Stock	28,000	35,000
Prepaid Expenses	1,200	400
	64,200	75,400
Liabilities :		
B/P	4,000	3,000
Creditors	8,000	5,000
Tax Payable	2,000	3,000
Provision for Bad Debts	1,000	1,200
Unpaid Expenses	200	400
	15,200	12,600

Prepare Schedule of Changes in Moving Capital. *(Bhagalpur, B.Com. Hons., 1998)*

Solution

Statement of Changes in Working Capital
(for the year ending 31st March, 2017)

	2016	2017	Effect on W. C.	
			Increase	Decrease
Current Assets :	₹	₹	₹	₹
Cash in hand	3,000	4,000	1,000	—
B/R	6,000	8,000	2,000	—
Book Debts	20,000	25,000	5,000	—

Investment (S. T. assumed)	6,000	3,000	—	3,000
Stock	28,000	35,000	7,000	—
P. P. Exp.	1,200	400	—	800
₹	64,200	75,400		
Current Liabilities :				
B/P	4,000	3,000	1,000	—
Creditors	8,000	5,000	3,000	—
Tax Payable	2,000	3,000	—	1,000
Provision for Bad Debts	1,000	1,200	—	200
Unpaid Expenses	200	400	—	200
₹	15,200	12,600		
Net Increase in W. C.			—	13,800
			19,000	19,000

FUND FLOW STATEMENT

SPECIFIC POINTS TO BE TAKEN INTO CONSIDERATION WHILE PREPARING FUND FLOW STATEMENT

These points should be taken into consideration while preparing Fund Flow Statement :

(i) First of all one should go through the question properly.

(ii) After that Schedule/Statement of Changes in Working Capital should be prepared.

(iii) Those items of Balance Sheets have been used in this schedule should not be used anywhere else.

(iv) Before preparing Fund Flow Statement hidden informations should be calculated by preparing Provision for Depreciation on Fixed Assets A/c, Machinery A/c, Provision for Taxation A/c, etc.

(v) Fund Flow Statement and Statement of Adjusted Profit and Loss (Adjusted Statement of P/L A/c) should be prepared side by side so that question should not be read again and again.

(vi) Some information given under additional information of question only for clarification one should not be confused by them. For example, opening balance of goodwill in Balance Sheet is ₹ 20,000 and closing balance is ₹ 12,000. In additional information it is written that goodwill has been written off to the extent of ₹ 8,000. So this is nothing but the clarification of goodwill written off.

(vii) If Provision for Taxation and Provision for Proposed Dividend are give in Balance Sheet, these should be treated as Appropriation of Profits. However, if Tax Payable and Dividend Payable are given in Balance Sheets, these should be treated as current liabilities.

If Tax Payable and Dividend Payable are given in Balance Sheet as current liabilities and any more information is given in additional information, this should be ignored.

(viii) Some other points should also be taken into consideration, which are :

(a) Only current assets and current liabilities are shown in Schedule of Changes in Working Capital.

(b) In Statement of Adjusted Profit and Loss only non cash and non-operating items are adjusted.

(c) In Fund-Flow Statement only those items concerned with non-current assets and liabilities are shown which affect Flow of Funds. In addition to that Fund from Operation and Funds Lost in Operation are also shown in Sources and Application side respectively in Fund Flow Statement.

Illustration 35

Prepare Fund Flow Statement with given details :

	₹
Issue of Shares for Cash	5,00,000
Issue of Shares against the Purchase of Plant	3,00,000
Borrowings in Cash	2,00,000
Sale of Furniture on Credit	60,000
Debentures redeemed	1,60,000
Profit from Operation	1,00,000
Purchase of Machine for Cash	6,00,000
Closing Cash	1,00,000

(*L.N.M. Univ., Darbhanga*, 2008)

Solution

Fund Flow Statement

Sources	₹	*Uses*	₹
Funds from Operation	1,00,000	Debentures Redeemed	1,60,000
Issue of Shares	5,00,000	Purchase of Machine for Cash	6,00,000
Borrowings in Cash	2,00,000	Increase in W.C. (Bal. Fig.)	40,000
	8,00,000		8,00,000

Illustration 36

The Balance Sheets of Awakash Co. Ltd. at the end of 2016 and 2017 are as follows :

Balance Sheets of Awakash Co. Ltd.

(*as at* 31*st March*, 2012 *and* 2013)

Particulars	*Note No.*	2017	2016
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Funds* :			
Equity Share Capital		1,75,000	1,30,000
Preference Share Capital		75,000	70,000
Statement of Profit & Loss		30,000	20,000
2. *Current Liabilities* :			
Trade Payables (Creditors)		70,000	1,00,000
Total (1 + 2)		3,50,000	3,20,000
II. *ASSETS*			
1. *Non-current Assets* :			
Plant & Machinery (Tangible)		60,000	50,000
Furniture & Fixture (Tangible)		75,000	20,000
2. *Current Assets* :			
Inventories (Stock)		50,000	80,000
Trade Receivables (Debtors)		85,000	70,000
Cash		80,000	1,00,000
Total (1 + 2)		3,50,000	3,20,000

You are required to prepare a Statement of Changes in Working Capital and a Statement of Funds Flow from the above data. (*R.U., B.Com. Hons.*, 1991, 92; *V.B.U.*, 1993, 2012)

Solution

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Statement of Profit & Loss (Balance) (₹ 30,000 – 20,000)		10,000
Add : Non-operating Expenses		–
Less : Non-operating Income		–
Funds from Operation		10,000

Statement of Changes in Working Capital

(for the year ending 31st March, 2017)

	2016	2017	*Effect on Working Capital*	
			Increase	*Decrease*
Current Assets :	₹	₹	₹	₹
Cash	1,00,000	80,000	—	20,000
Debtors	70,000	85,000	15,000	—
Stock	80,000	50,000	—	30,000
	2,50,000	2,15,000		
Current Liabilities :				
Creditors	1,00,000	70,000	30,000	—
	1,00,000	70,000		
Net Decrease in Working Capital			5,000	—
			50,000	50,000

Funds Flow Statement

(for the year ending 31st March, 2017)

Sources of Funds	*Amount*	*Application of Funds*	*Amount*
	₹		₹
Issue of Share Capital :		Purchase of Plant & Machinery	
Preference (₹ 75,000 – 70,000)	5,000	(₹ 60,000 – 50,000)	10,000
Equity (₹ 1,75,000 – 1,30,000)	45,000	Furniture & Fixture	
Funds from Operation	10,000	(₹ 75,000 – 20,000)	55,000
Decrease in Working Capital	5,000		
	65,000		65,000

Illustration 37

From the following Balance Sheets as on 31st March, 2016 and 2017, you are required to prepare Statement showing Flow of Funds :

Name of the Company .....

Balance Sheet

(as at 31st March, 2017)

Particulars	*Note No.*	2017	2016
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Funds* :			
Share Capital		2,50,000	2,00,000
Retained Earnings		25,000	10,000

2. *Current Liabilities* :			
Trade Payables (Creditors)		35,000	60,000
Total (1 + 2)		3,10,000	2,70,000
II. *ASSETS*			
1. *Non-current Assets* :			
Land (Tangible)		60,000	40,000
2. *Current Assets* :			
Inventories (Stock)		80,000	70,000
Trade Receivables (Debtors)		1,20,000	1,25,000
Cash		50,000	35,000
Total (1 + 2)		3,10,000	2,70,000

(*B.N.M.U., Madhepura*, 2013)

Solution

Statement of Changes in Working Capital
(for the year ending 31st March, 2017)

	2016	2017	*Effect on Working Capital*	
			Increase	*Decrease*
Current Assets :	₹	₹	₹	₹
Cash	35,000	50,000	15,000	—
Debtors	1,25,000	1,20,000	—	5,000
Stock	70,000	80,000	10,000	—
	2,30,000	2,50,000		
Current Liabilities :				
Creditors	60,000	35,000	25,000	—
	60,000	35,000		
Net Increase in Working Capital			—	45,000
			50,000	50,000

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Retained Earnings (Balance) (₹ 25,000 – 10,000)		15,000
Funds from Operation		15,000

Fund Flow Statement
(for the year ending 31st March, 2017)

Sources	*Amount*	*Application*	*Amount*
	₹		₹
Issue of Share Capital	50,000	Purchase of Land (₹ 60,000 – 40,000)	20,000
Funds from Operation	15,000	Net Increase in Working Capital	45,000
	65,000		65,000

Illustration 38

From the following Balance Sheet of Ishu & Company Ltd., you are required to prepare the Statement of Changes in Working Capital and Statement of Flow of Funds :

Ishu & Company Ltd.
Balance Sheet
(as at 31st March, ...)

Particulars	Note No.	2017	2016
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Funds* :			
Share Capital		85,000	80,000
Statement of Profit & Loss		24,500	14,500
2. *Non-current Liabilities* :			
Mortgage		5,000	–
3. *Current Liabilities* :			
Trade Payables (Creditors)		5,000	9,000
Total (1 + 2 + 3)		1,19,500	1,03,500
II. *ASSETS*			
1. *Non-current Assets* :			
Land and Building (Tangible)		44,000	44,000
Plant (Tangible)		40,000	30,000
2. *Current Assets* :			
Inventories (Stock)		6,000	8,000
Trade Receivables (Debtors)		20,500	17,500
Cash at Bank		9,000	4,000
Total (1 + 2)		1,19,500	1,03,500

(M.U., B.Com. Hons., 1991; B.U., B.Com. Hons., 1993 based)

Solution **Statement of Changes in Working Capital**
(for the year ending 31st March, 2017)

	2016	2017	Effect on Working Capital	
			Increase	Decrease
Current Assets :	₹	₹	₹	₹
Stock	8,000	6,000	—	2,000
Debtors	17,500	20,500	3,000	–
Cash at Bank	4,000	9,000	5,000	–
	29,500	35,500		
Current Liabilities :				
Creditors	9,000	5,000	4,000	–
	9,000	5,000		
Net Increase in Working Capital			—	10,000
			12,000	12,000

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Statement of Profit and Loss (Balance) (₹ 24,500 – 14,500)		10,000
Add : Non-operating Expenses		—
Less : Non-operating Income		—
Funds from Operation		10,000

Fund Flow Statement

(for the year ending 31st March, 2017)

Sources	*Amount*	*Application*	*Amount*
	₹		₹
Share Capital	5,000	Purchase of Plant	10,000
Funds from Operation	10,000	Net Increase in Working Capital	10,000
Mortgage	5,000		
	20,000		20,000

Illustration 39

The Balance Sheet of Manju Co. Ltd. at the end of 2016 and 2017 are as follows :

Balance Sheet of Manju Co. Ltd.

(as at 31st March, ...)

Particulars	*Note No.*	2017		2016	
		₹	₹	₹	₹
I. *EQUITY & LIABILITIES*					
1. *Shareholders' Funds* :					
Common Stock			50,000		50,000
Retained Earnings			1,10,000		80,000
2. *Non-current Liabilities* :					
Bonds 6%			20,000		—
Mortgage			10,000		—
3. *Current Liabilities* :					
Trade Payable (Accounts Payable)			20,000		15,000
Notes Payable			10,000		25,000
Other Current Liabilities			15,000		10,000
Total (1 + 2 + 3)			2,35,000		1,80,000
II. *ASSETS*					
1. *Non-current Assets* :					
Gross Block		1,40,000		1,00,000	
Accumulated Depreciation		(55,000)	85,000	(40,000)	60,000
2. *Current Assets* :					
Inventory			1,05,000		70,000
Trade Receivables			40,000		30,000
Cash			5,000		10,000
Marketable Security			—		10,000
Total (1 + 2)			2,35,000		1,80,000

You are required to prepare a Statement of Changes in Working Capital and a Statement of Funds Flow. (*M.U., B.Com. Hons.*, 1994, 97 (*Half figure*) & *Patna Univ.*, 1996)

Solution

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Statement of Profit and Loss (Closing – Opening Balance) (₹ 1,10,000 – 80,000)		30,000
Add : Non-operating Expenses :		
Depreciation (₹ 55,000 – 40,000)		15,000
		45,000
Less : Non-operating Income		–
Funds from Operation		45,000

Statement of Changes in Working Capital

(for the year ending 31st March, 2017)

	2016	2017	*Effect on Working Capital*	
			Increase	*Decrease*
	₹	₹	₹	₹
Current Assets :				
Cash	10,000	5,000	—	5,000
Marketable Security	10,000	—	—	10,000
Inventory	70,000	1,05,000	35,000	–
Receivable	30,000	40,000	10,000	–
	1,20,000	1,50,000		
Current Liabilities :				
Accounts Payable	15,000	20,000	—	5,000
Notes Payable	25,000	10,000	15,000	–
Other Current Liabilities	10,000	15,000	—	5,000
	50,000	45,000		
Net Increase in Working Capital			—	35,000
			60,000	60,000

Funds Flow Statement

(for the year ending 31st March, 2017)

Sources	*Amount*	*Application*	*Amount*
	₹		₹
Mortgage	10,000	Purchase of Fixed Assets/Gross Block	40,000
6% Bonds	20,000	Net Increase in Working Capital	35,000
Funds from Operation	45,000		
	75,000		75,000

Illustration 40

The Balance Sheets of Sumit Co. Ltd. for the year ended 31st March, 2016 and 2017 are as follows :

Balance Sheet of Sumit Co. Ltd.
(*as at 31st March, ...*)

Particulars	*Note No.*	2017		2016	
		₹	₹	₹	₹
EQUITY & LIABILITIES					
1. *Shareholders' Funds* :					
Share Capital			1,25,000		82,000
Securities Premium Reserve			7,000		6,000
General Reserve			9,000		8,000
Statement of Profit & Loss			20,800		17,500
2. *Non-current Liabilities* :					
6% Debentures			25,000		—
Provision for Income-tax (Long-term Provision)			11,900		9,800
3. *Current Liabilities* :					
Trade Payables :					
Creditors		30,400		30,500	
B/P		6,000	36,400	3,000	33,500
Total (1 + 2 + 3)			2,35,100		1,56,800
II. ASSETS					
1. *Non-current Assets* :					
Freehold Premises (Tangible)			80,000		31,000
Plant and Machinery (Tangible)			54,500		40,000
Furniture and Fixture (Tangible)			31,500		22,400
2. *Current Assets* :					
Inventory (Stock)			25,000		20,000
Trade Receivables (Debtors)			40,100		38,600
Cash and Cash Equivalents :					
Bank			4,000		4,800
Total (1 + 2)			2,35,100		1,56,800

Depreciation written off during the year 2017 was as follows :

	₹
Plant & Machinery	10,000
Furniture & Fixtures	3,200

Pepare Fund Flow Statement and relevant accounts.

(*B.N.M.U., B.Com. Hons.*, 1998; *V.K.S.*, 2016)

Solution

Working Notes : **Statement of Adjusted Profit and Loss**

Particulars	₹	₹
Statement of Profit and Loss (Balance) ₹ (20,800 – 17,500) (Closing Balance – Opening Balance)		3,300
Add : *Non-operating Expenses* :		
General Reserve	1,000	
Income-tax	11,900	
Plant & Machinery (Depreciation)	10,000	
Furniture & Fixture (Depreciation)	3,200	26,100
Funds from Operations		29,400

2. Purchase of Plant and Machinery :
   = Closing Balance + Dep. – Opening Balance
   = ₹ 54,500 + 10,000 – 40,000 = ₹ 24,500
3. Purchase of Furniture and Fixtures :
   = Closing Balance + Dep. – Opening Balance
   = ₹ 31,500 + 3,200 – 22,400 = ₹ 12,300

Statement of Changes in Working Capital
(for the year ending 31st March, 2017)

	2016	2017	Effect on Working Capital	
			Increase	Decrease
Current Assets :	₹	₹	₹	₹
Stock	20,000	25,000	5,000	—
Debtors	38,600	40,100	1,500	—
Bank	4,800	4,000	—	800
	63,400	69,100		
Current Liabilities :				
Creditors	30,500	30,400	100	—
Bills Payable	3,000	6,000	—	3,000
	33,500	36,400		
Net Increase in Working Capital				2,800
			6,600	6,600

Fund Flow Statement
(for the year ending 31st March, 2017)

Sources	*Amount*	*Application*	*Amount*
	₹		₹
Share Issued	43,000	Purchase of Plant	24,500
Share Premium	1,000	Purchase of Furniture and Fixtures	12,300
Fund from Operation	29,400	Purchase of Freehold Premises (₹ 80,000 – 31,000)	49,000
6% Debenture Issued	25,000	Payment of Tax	9,800
		Increase in Working Capital	2,800
	98,400		98,400

Illustration 41

From the following Balance Sheets, prepare a Schedule of Changes in Working Capital and Fund-Flow Statement :

Balance Sheet
(as at ....)

Particulars	*Note No.*	2017	2016
I. EQUITY & LIABILITIES		₹	₹
1. *Shareholders' Funds :*			
Share Capital		4,50,000	4,00,000
Statement of P/L		70,000	—

General Reserve		2,10,000	2,00,000
Statement of P/L (Dr.)		—	(50,000)
Discount on Shares		(5,000)	(10,000)
2. *Non-current Liabilities* :			
Debentures		3,50,000	2,40,000
3. *Current Liabilities* :		1,50,000	1,20,000
	Total	12,25,000	9,00,000
II. ASSETS			
1. *Non-current Assets* :			
Fixed Assets		7,20,000	6,10,000
Investments		1,30,000	50,000
2. *Current Assets* :		3,75,000	2,40,000
	Total	12,25,000	9,00,000

Additional Informations :

(i) Depreciation charged on fixed assets was ₹ 60,000.

(ii) A machine of the book value of ₹ 40,000 was sold for ₹ 30,000.

(*Magadh Univ.*, 2013)

Solution

Schedule of Changes in Working Capital

Particulars	2016	2017	*Working Capital Changes*	
			Increase	*Decrease*
	₹	₹	₹	₹
Current Assets (A)	2,40,000	3,75,000	1,35,000	
Current Liabilities (B)	1,20,000	1,50,000		30,000
Working Capital (A – B)	1,20,000	2,25,000		
Increase in Working Capital	1,05,000			1,05,000
	2,25,000	2,25,000	1,35,000	1,35,000

Funds Flow Statement

Sources of Funds	*Amount*	*Uses of Funds*	*Amount*
	₹		₹
Funds from Operations (Note 1)	2,05,000	Purchase of Investments	80,000
Issue of Shares	50,000	Purchase of Fixed Assets (Note 2)	2,10,000
Issue of Debentures	1,10,000	Increase in Working Capital	1,05,000
Sale of Fixed Assets	30,000		
	3,95,000		3,95,000

Working Note 1.

Statement of Adjusted Profit & Loss

Particulars	*Amount*
	₹
Balance of Statement of Profit & Loss [70,000 – (– 50,000)]	1,20,000
Add : *Non-operating / Non-cash Expenses* :	
Depreciation	60,000
Loss on Sale of Fixed Assets	10,000
Discount on Shares Written off	5,000
General Reserve	10,000
Funds from Operation	2,05,000

Note 2.

Fixed Assets Account

	₹		₹
To Balance b/d	6,10,000	By Sale	30,000
To Purchase (Bal. Fig.)	2,10,000	By Loss on Sale	10,000
		By Depreciation	60,000
		By Balance c/d	7,20,000
	8,20,000		8,20,000

Illustration 42

The following were the Balance Sheets of Amit Corporation for 2016 and 2017. Prepare a Fund Flow Statement with supporting Schedule of Working Capital :

Balance Sheet of Amit Corporation

(as at.....)

Particulars	*Note No.*	2017		2016	
		₹	₹	₹	₹
I. *EQUITY & LIABILITIES*					
1. *Shareholders' Funds* :					
Common Stock			1,20,000		1,00,000
Surplus			59,000		55,000
2. *Non-current Liabilities* :					
Bonds Payable			60,000		20,000
3. *Current Liabilities* :					
Trade Payable (Accounts Payable)			12,000		15,000
Total (1 + 2 + 3)			2,51,000		1,90,000
II. *ASSETS*					
1. *Non-current Assets* :					
Plant (Tangible)		1,50,000		1,00,000	
Reserve for Depreciation on Plant		(19,000)	1,31,000	(10,000)	90,000
2. *Current Assets* :					
Inventory (Stock)			33,000		20,000
Trade Receivables			42,000		50,000
Cash			45,000		30,000
Total (1 + 2)			2,51,000		1,90,000

The Surplus Account on 31st March, 2017 was as follows :

Dr. **Surplus Account** *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	₹		₹
To Cash (Dividends)	12,000	By Balance b/d	55,000
To Balance c/d	59,000	By Net Profit after Income-tax	16,000
	71,000		71,000

A Plant expansion to ₹ 50,000 was completed during the year. Depreciation is computed at 6%.

Solution

Working Note :

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Net Profit (Closing – Opening) (₹ 59,000 – 55,000)		4,000
Add : Non-operating Expenses / Non-cash Expenses :		
Dividends	12,000	
Depreciation on Plant (6% on ₹ 1,50,000)	9,000	21,000
Funds from Operation		25,000

Statement of Changes in Working Capital

(for the year ending 31st March, 2017)

	2016	2017	*Effect on Working Capital*	
			Increase	*Decrease*
Current Assets :	₹	₹	₹	₹
Cash	30,000	45,000	15,000	—
Accounts Receivable	50,000	42,000	—	8,000
Stock	20,000	33,000	13,000	—
	1,00,000	1,20,000		
Current Liabilities :				
Account Payable	15,000	12,000	3,000	—
	15,000	12,000		
Net Increase in Working Capital				23,000
			31,000	31,000

Fund Flow Statement

(for the year ending 31st March, 2017)

Sources	*Amount*	*Application*	*Amount*
	₹		₹
Issued of Bonds Payable (₹ 60,000 – 20,000)	40,000	Purchase of Plant	50,000
Issue of Stock (Shares) (₹ 1,20,000 – 1,00,000)	20,000	Payment of Dividend	12,000
Funds from Operation	25,000	Increase in Working Capital	23,000
	85,000		85,000

Illustration 43

The following B/S, prepare a Fund Flow Statement :

Name of the Company .....

Balance Sheet

(as at .....)

Particulars	*Note No.*	2017	2016
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Funds :*			
Share Capital		1,00,000	50,000
Statement of Profit and Loss		25,000	15,000

Securities Premium Reserve		6,000	5,000
Preliminary Expenses		(2,500)	(4,000)
2. *Non-current Liabilities* :			
Debentures		25,000	—
3. *Current Liabilities* :			
Trade Payable (Sundry Creditors)		30,000	20,000
Dividend Payable		6,000	5,000
O/s Expenses		3,500	5,000
	Total (1 + 2 + 3)	1,93,000	96,000
II. *ASSETS*			
1. *Non-current Assets* :			
Plant (Tangible)		96,000	18,000
Goodwill (Intangible)		31,000	20,000
2. *Current Assets* :			
Inventory (Stock)		35,000	40,000
Trade Receivables (Debtors)		32,500	15,000
Cash and Cash Equivalents :			
Cash		9,000	8,000
Overdraft		(10,500)	(5,000)
	Total (1 + 2)	1,93,000	96,000

Additional Informations :

1. During the current year a plant was sold for ₹ 20,000 (accumulated depreciation being ₹ 8,000) and it was purchased for ₹ 25,000.

2. Refund of Income-tax received ₹ 1,000.

(*R.U., B.Com. Hons.*, 1998, 2007; *Kolhan U.*, 2012)

Solution

Working Note :

Plant Account

Dr.	₹		Cr. ₹
To Balance b/d	18,000	By Statement of Adjusted P/L (Dep.)	8,000
To Profit on Sale of Plant Statement of Adjusted P/L	3,000	By Cash Sales	20,000
To Cash Purchase of Plant	1,03,000	By Balance c/d	96,000
	1,24,000		1,24,000

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Balance of Statement of Profit & Loss (Closing – Opening)(₹ 25,000 – 15,000)		10,000
Add : Non-operating or Non-cash Expenses :		
Preliminary Expenses Written off	1,500	
Depreciation (Plant)	8,000	+ 9,500
		19,500
Less : Non-operating Income :		
Profit on Sale of Plant	3,000	
Refund of Tax	1,000	– 4,000
Funds from Operation		15,500

Statement of Changes in Working Capital
(for the year ending 31st March, 2017)

Particulars	2016	2017	Effect on Working Capital	
			Increase	Decrease
	₹	₹	₹	₹
Current Assets :				
Cash	8,000	9,000	1,000	—
Debtors	15,000	32,500	17,500	—
Stock	40,000	35,000	—	5,000
	63,000	76,500		
Current Liabilities :				
S. Creditors	20,000	30,000	—	10,000
O/s Expenses	5,000	3,500	1,500	—
Overdraft	5,000	10,500	—	5,500
Dividend Payable	5,000	6,000	—	1,000
	35,000	50,000		
Net Decrease in W. C.			1,500	—
			21,500	21,500

Fund Flow Statement
(for the year ending 31st March, 2017)

Sources	Amount	Applications	Amount
	₹		₹
Funds from Operation	15,500	Purchase of Plant	1,03,000
Sale of Plant	20,000	Purchase of Goodwill	11,000
Net Decrease in W. Capital	1,500		
Refund of Income-tax	1,000		
Debenture Issued	25,000		
Issue of Capital	50,000		
Securities Premium Reserve	1,000		
	1,14,000		1,14,000

Illustration 44

The Balance Sheets of Neelam Co. as at March 31, 2016 and 2017 are as below :

Particulars	Note No.	2017	2016
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Funds :*			
Share Capital		3,50,000	2,50,000
Statement of Profit & Loss		80,000	50,000
General Reserve		35,000	25,000
2. *Current Liabilities :*			
Trade Payables :			
Creditors		95,000	76,500
Bills Payable		25,000	20,000
Outstanding Expenses		2,500	3,500
Total		5,87,500	4,25,000

II. *ASSETS*				
1. *Non-current Assets* :				
Fixed Assets :				
Building	(Tangible)		60,000	40,000
Plant & Machinery	(Tangible)		4,00,000	2,50,000
2. *Current Assets* :				
Inventory (Stocks)			37,500	50,000
Trade Receivables (Debtors)			80,000	75,000
Cash & Cash Equivalents (Cash)			10,000	10,000
	Total		5,87,500	4,25,000

Additional Informations :

(i) ₹ 25,000 depreciation has been charged on Plant & Machinery during the year 2016-17.

(ii) A machinery was sold for ₹ 4,000 during the year 2016-17. It had cost ₹ 6,000 and depreciation ₹ 3,500 had been provided on it. Prepare Fund Statement.

(*Bhagalpur*, 2007; *Magadh*, 2008; *Vinoba Bhave*, 2008; *Bundelkhand*, 2011; *Ranchi*, 2012)

Solution

Schedule of Changes in Working Capital (Funds)

Particulars	31.3.2016	31.3.2017	*Working Capital Changes*	
			Increase	*Decrease*
	₹	₹	₹	₹
Current Assets :				
Stock	50,000	37,500		12,500
Debtors	75,000	80,000	5,000	
Cash	10,000	10,000		
	1,35,000	1,27,500		
Current Liabilities :				
Creditors	76,500	95,000		18,500
Bills Payable	20,000	25,000		5,000
Outstanding Expenses	3,500	2,500	1,000	
	1,00,000	1,22,500		
Working Capital	35,000	5,000		
Decrease in Working Capital		30,000	30,000	
	35,000	35,000	36,000	36,000

Funds Flow Statement

Sources of Funds	*Amount*	*Uses of Funds*	*Amount*
	₹		₹
Funds from Operations (Note 1)	63,500	Purchase of Building	20,000
Issue of Share Capital	1,00,000	Purchase of Machines (Note 2)	1,77,500
Sale of Machines	4,000		
Decrease in Working Capital	30,000		
	1,97,500		1,97,500

Illustration 45

From the following Balance Sheet, prepare a Fund Flow Statement :

Balance Sheet

(as at....)

Particulars	Note No.	2018	2017
		₹	₹
I. EQUITY & LIABILITIES			
1. *Shareholders' Funds* :			
Share Capital		4,00,000	3,00,000
Statement of Profit & Loss		40,000	30,000
2. *Non-current Liabilities* :			
Debentures		70,000	1,00,000
Proposed Dividend		40,000	30,000
3. *Current Liabilities* :			
Trade Payables		90,000	60,000
Outstanding Expenses		8,000	12,000
Total		6,48,000	5,32,000
II. ASSETS			
1. *Non-current Assets* :			
Fixed Assets :			
Plant		3,90,000	2,80,000
2. *Current Assets* :			
Inventory		93,000	1,22,000
Trade Receivables		1,52,000	1,20,000
Cash & Cash Equivalents (Cash)		13,000	10,000
Total		6,48,000	5,32,000

Additional Informations :

(i) ₹ 32,000 depreciation for the year.

(ii) A machine costing ₹ 20,000 (WDV ₹ 8,000) has been sold for ₹ 12,000.

(*Patna*, 2010)

Solution

Statement of Changes in Working Capital

Particulars	2017	2018	Working Capital Changes	
			Increase	Decrease
Current Assets :	₹	₹	₹	₹
Inventory	1,22,000	93,000	—	29,000
Trade Receivables	1,20,000	1,52,000	32,000	—
Cash	10,000	13,000	3,000	—
	2,52,000	2,58,000		
Current Liabilities :				
Trade Payables	60,000	90,000		30,000
Outstanding Expenses	12,000	8,000	4,000	
Decrease in Working Capital			20,000	
			59,000	59,000

Fund-Flow Statement

(for the year ending 31-3-2018)

Sources	Amount	Application	Amount
	₹		₹
Issue of Share Capital	1,00,000	Redemption of Debentures	30,000
Decrease in Working Capital	20,000	Purchase of Plant	1,50,000

Funds from Operation	78,000	Dividend Paid	30,000
Sale of Plant	12,000		
	2,10,000		2,10,000

Working Note 1

Statement of Adjusted Profit & Loss

Particulars		*Amount*
		₹
Balance of Profit & Loss ₹ (40,000 – 30,000)		10,000
Add : Non-operating Expenses/Non-cash Expenses :	₹	
Proposed Dividend	40,000	
Depreciation	32,000	72,000
		82,000
Less : Non-operating Income		4,000
Profit on Sale of Plant	Fund from Operations	78,000

Note 2

Dr. **Plant Account** *Cr.*

	₹		₹
To Balance b/d	2,80,000	By Bank (Sale)	12,000
To Statement of Adjusted P/L		By Depreciation	32,000
(Profit on Sale)	4,000	By Balance c/d	3,90,000
To Bank (Purchase)	1,50,000		
	4,34,000		4,34,000

Illustration 46

Following are the Balance Sheets of M/s Kalyani Ltd. as on 31st March, 2017 and 2018 :

Balance Sheet of M/s Kalyani Ltd.

(as at 31st March, ...)

Particulars	*Note No.*	2018		2017	
		₹	₹	₹	₹
I. *EQUITY & LIABILITIES*					
1. *Shareholders' Funds :*					
Capital			2,50,000		2,50,000
Statement of Profit & Loss			23,000		16,000
Reserve for Contingencies			40,000		40,000
2. *Non-current Liabilities :*					
5% Debentures			70,000		90,000
3. *Current Liabilities :*					
Trade Payable :					
Creditors		90,000		1,00,000	
Bills Payable		6,000	96,000	3,000	1,03,000
Outstanding Expenses			12,000		13,000
Total (1 + 2 + 3)			4,91,000		5,12,000
II. *ASSETS*					
1. *Non-current Assets :*					
Land and Building			1,40,000		1,40,000
Machinery		80,000		62,000	
Depreciation Fund		(44,000)	36,000	(40,000)	22,000

2. *Current Assets* :					
Inventory			1,16,000		92,000
Trade Receivables			53,000		77,000
Cash			80,000		80,000
Temporary Investment			64,000		1,00,000
Prepaid Expenses			2,000		1,000
Total (1 + 2)			4,91,000		5,12,000

Additional Informations :

1. 10% dividend was paid in cash.
2. New machinery for ₹ 30,500 was purchased but old machinery costing ₹ 12,500 was sold for ₹ 4,000 (accumulated depreciation were ₹ 6,500.)
3. ₹ 20,000, 5% Debenture was redeemed by purchase from market @ ₹ 96 for a debenture of ₹ 100.
4. ₹ 36,000 Investment were sold at book value.

You are required to prepare a Statement of Changes in Working Capital and a Statement of Fund Flow.

Solution

Working Notes :

1. Machinery Account

	Amount		Amount
	₹		₹
To Balance b/d	62,000	By Depreciation A/c	6,500
To Cash Purchase	30,500	By Cash A/c (Sales)	4,000
		By Statement of Adjusted Profit and Loss (Bal. fig.)	2,000
		By Balance c/d	80,000
	92,500		92,500

2. Depreciation Fund Account

Dr.	Amount		Amount *Cr.*
	₹		₹
To Machinery A/c	6,500	By Balance b/d	40,000
To Balance c/d	44,000	By Statement of Adjusted P/L	10,500
	50,500		50,500

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Balance of Statement of Profit & Loss (Closing Balance – Opening Balance) (₹ 23,000 – 16,000)		7,000
Add : Non-operating / Non-cash Expenses :		
Depreciation	10,500	
Loss on Sale of Machinery (₹ 12,500 – 6,500 – 4,000)	2,000	
Dividend (10% of ₹ 2,50,000)	25,000	37,500
		44,500
Less : Non-operating Income :		
Profit on Redemption of Debenture $\left(\frac{20,000 \times 4}{100}\right)$		800
Funds from Operation		43,700

Statement of Changes in Working Capital
(for the year ending 31st March, 2018)

	2017	2018	Effect on Working Capital	
			Increase	Decrease
Current Assets :	₹	₹	₹	₹
Trade Receivables	77,000	53,000	—	24,000
Temporary Investment	1,00,000	64,000	—	36,000
Inventory	92,000	1,16,000	24,000	—
Prepaid Expenses	1,000	2,000	1,000	—
	2,70,000	2,35,000		
Current Liabilities :				
Trade Payables	1,00,000	90,000	10,000	—
B/P	3,000	6,000	—	3,000
O/s Expenses	13,000	12,000	1,000	—
	1,16,000	1,08,000		
Net Decrease in Working Capital			27,000	
			63,000	63,000

Fund-Flow Statement
(for the year ending 31st March, 2018)

Sources	*Amount*	*Applications*	*Amount*
	₹		₹
Sale of Machinery	4,000	Redemption of Debenture (₹ 20,000 – 800)	19,200
Funds from Operation	43,700	Purchase of Machinery	30,500
Net Decrease in Working Capital	27,000	Dividend Paid	25,000
	74,700		74,700

Illustration 47

Given below are the changes in Account Balance of Shri Venkatesh for the year ended 31st March, 2018 :

	₹		₹
Cash	(+) 97,000	Accumulated Depreciation	(+) 20,000
Debtors	(–) 16,000	Bills Payable	(–) 10,000
Provision for Doubtful Debts	(–) 400	Outstanding Expenses	(+) 1,800
Stock	(–) 30,000	Ram Gopal's Capital	(+) 89,600
Plant	(+) 50,000		

Debtors ₹ 2,000 were written-off as uncollectable. Plant costing ₹ 17,500 was sold for ₹ 7,500 resulting a loss of ₹ 1,000. Net income after charging the loss on plant amounted to ₹ 1,30,000. Prepare funds flow statement. *(Meerut, 2012 based on)*

Solution

Schedule of Changes in Working Capital

Particulars	*Increase*	*Decrease*
	₹	₹
Current Assets :		
Cash	97,000	
Debtors		16,000
Stock		30,000

Current Liabilities :		
Provision for Doubtful Debts	400	
Bills Payable	10,000	1,800
Outstanding Exp.		59,600
Increase in Working Capital	1,07,400	1,07,400

Funds Flow Statement

Sources of Funds	*Amount*	*Uses of Funds*	*Amount*
	₹		₹
Funds from Operations (Note 1)	1,60,000	Plant Purchased (Note 2)	67,500
Sale of Plant	7,500	Drawings (Note 3)	40,400
		Increase in Working Capital	59,600
	1,67,500		1,67,500

Note 1 : Funds from Operations :

	₹
Net Profit	1,30,000
Add : Non-cash Items :	
Loss on Sale of Plant	1,000
Depreciation	29,000
	1,60,000

Accumulated depreciation has increased by ₹ 20,000 while the amount of accumulated depreciation on the plant sold was ₹ 9,000 (17,500 – 8,500). It means that total depreciation charged during the year was ₹ 29,000 (20,000 + 9,000).

Note 2 : Plant Purchased :

The cost of plant has increased by ₹ 50,000 after the sale of a plant costing ₹ 17,500. It means that plant worth ₹ 67,500 (50,000 + 17,500) was purchased during the year.

Note 3. Drawings :

On the basis of net profit Ram Gopal's capital should have been increased by ₹ 1,30,000 while it has increased only by ₹ 89,600. It means that there was a drawings of ₹ 40,400 (1,30,000 – 89,600).

Illustration 48

Following are the Balance Sheets of Monika & Co. as at 31st March, 2017 and 2018 :

Balance Sheet of Monika & Co.

(as at 31st March, 2017 and 2018)

Particulars	*Note No.*	2018	2017
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Funds* :			
Equity Share Capital		1,90,000	1,50,000
Preference Share Capital		60,000	50,000
General Reserve		60,000	50,000
Statement of Profit & Loss		30,600	30,500
2. *Non-current Liabilities* :			
Provision for Taxation (Long-term Provision)		39,800	39,500
3. *Current Liabilities* :			
Trade Payables		1,35,200	1,50,000
Bank Loan (Short-term)		—	70,000
Total (1 + 2 + 3)		5,15,600	5,40,000

II. ASSETS			
1. *Non-current Assets :*			
Land & Building (Tangible)		1,60,000	1,70,000
Plant (Tangible)		2,04,000	1,80,000
2. *Current Assets :*			
Inventory		74,000	1,09,000
Trade Receivables		64,800	78,000
Cash		4,800	3,000
Bank		8,000	—
Total (1 + 2)		5,15,600	5,40,000

Additional Informations :

1. Depreciation was written off on Plant ₹ 10,000 in the year 2018.
2. Dividend of ₹ 15,000 was paid during the year.
3. Increase Tax Provision made during the year was ₹ 20,000.
4. A piece of land has been sold during the year at cost price.

You are required to prepare a Fund Flow Statement and Changes in Working Capital.

Solution

Working Notes :

1. Plant Account

Dr. *Cr.*

	Amount		*Amount*
	₹		₹
To Balance b/d	1,80,000	By Depreciation A/c	10,000
To Cash Purchase (Bal. fig.)	34,000	By Balance c/d	2,04,000
	2,14,000		2,14,000

2. Provision for Taxation Account

Dr. *Cr.*

	Amount		*Amount*
	₹		₹
To Cash (Tax Paid) (Bal. fig.)	19,700	By Balance b/d	39,500
To Balance c/d	39,800	By Statement of Adjusted P/L	20,000
	59,500		59,500

3. Statement of Adjusted Profit and Loss

Particulars	₹	₹
Balance of Statement of Profit & Loss (₹ 30,600 – 30,500)		100
Add : Non-operating / Non-cash Expenses :		
Provision for Taxation	20,000	
Dividend	15,000	
Depreciation (Plant)	10,000	
Depreciation (Land and Building)	10,000	
Transfer to General Reserve (₹ 60,000 – 50,000)	10,000	65,000
		65,100
Less : Non-operating Income		—
Funds from Operation		65,100

Statement of Changes in Working Capital
(for the year ending 31st March, 2018)

	2017	2018	Effect on Working Capital	
			Increase	*Decrease*
	₹	₹	₹	₹
Current Assets :				
Inventory	1,09,000	74,000	—	35,000
Trade Receivables	78,000	64,800	—	13,200
Cash	3,000	4,800	1,800	—
Bank	—	8,000	8,000	—
	1,90,000	1,51,600		
Current Liabilities :				
Bank Loan	70,000	—	70,000	—
Trade Payables	1,50,000	1,35,200	14,800	—
	2,20,000	1,35,200		
Net Increase in Working Capital			—	46,400
			94,600	94,600

Fund Flow Statement
(for the year ending 31st March, 2018)

Sources	*Amount*	*Applications*	*Amount*
	₹		₹
Issue of Equity Share Capital (₹ 1,90,000 –1,50,000)	40,000	Purchase of Plant	34,000
Issue of Pref. Share Capital (₹ 60,000 – 50,000)	10,000	Dividend Paid	15,000
Funds from Operation	65,100	Income-tax paid during the year	19,700
		Net Increase in Working Capital	46,400
	1,15,100		1,15,100

Illustration 49

Following are the Balance Sheets of Goodluck Ltd. as on 31st March, 2017 and 2018 :

Balance Sheet of Goodluck Ltd.
(as at 31st March, 2017 and 2018)

Particulars	*Note No.*	2018		2017	
		₹	₹	₹	₹
I. *EQUITY & LIABILITIES*					
1. *Shareholders' Funds :*					
Equity Share Capital			1,20,000		1,00,000
Securities Premium Reserve			5,000		—
General Reserve			25,000		15,000
Statement of Profit & Loss			34,000		24,000
2. *Non-current Liabilities :*					
5% Debentures			—		25,000
Proposed Dividend (Long-term)			12,000		10,000
3. *Current Liabilities :*					
Trade Payable (Sundry Creditors)			75,000		65,000
Total (1 + 2 + 3)			2,71,000		2,39,000

II. *ASSETS*					
1. *Non-current Assets :*					
Land and Building (Tangible)			75,000		52,500
Plant and Machinery (Tangible)		1,60,000		1,45,000	
Provision for Dep. (Plant/Machinery)		(75,000)	85,000	(70,000)	75,000
Furniture		5,000		4,500	
Provision for Dep. (Furniture)		(2,000)	3,000	(3,000)	1,500
2. *Current Assets :*					
Inventory (Stock)			52,500		65,000
Trade Receivables (Debtors)			42,500		37,500
Cash			13,000		7,500
Total (1 + 2)			2,71,000		2,39,000

Additional Informations :

(1) Furniture which cost ₹ 2,500 written down value ₹ 500 was sold during the year 2018 for ₹ 1,000.

(2) Plant and Machinery which cost ₹ 10,000 and in respect of which ₹ 6,500 has been written off as depreciation, was sold for ₹ 1,500 in the year 2018.

(3) The dividend of 2017 was paid in 2018.

You are required to prepare a Statement of Changes in Working Capital and a Fund Flow Statement.

Solution

Working Notes : **1. Provision for Depreciation on Plant and Machinery Account**

Dr. *Cr.*

	Amount		*Amount*
	₹		₹
To Plant and Machinery A/c (Dep.)	6,500	By Balance b/d	70,000
To Balance c/d	75,000	By Statement of Adjusted P/L (Dep.) (Bal. fig.)	11,500
	81,500		81,500

Dr. **2. Plant and Machinery Account** *Cr.*

	Amount		*Amount*
	₹		₹
To Balance b/d	1,45,000	By Depreciation	6,500
To Cash Purchase (Bal. fig.)	25,000	By Cash Sales	1,500
		By Statement of Adjusted P/L	2,000
		By Balance c/d	1,60,000
	1,70,000		1,70,000

Dr. **3. Provision for Depreciation on Furniture** *Cr.*

	Amount		*Amount*
	₹		₹
To Furniture A/c (Dep.) (₹ 2,500 – 500)	2,000	By Balance b/d	3,000
To Balance c/d	2,000	By Statement of Adjusted P/L (Bal. fig.)	1,000
	4,000		4,000

Furniture Account

Dr.	Amount		Amount
	₹		₹
To Balance b/d	4,500	By Cash Sales	1,000
To Statement of Adjusted P/L (Profit on Sale) (₹ 1,000 – 500)	500	By Provision for Depreciation	2,000
To Cash Purchase (Bal. fig.)	3,000	By Balance c/d	5,000
	8,000		8,000

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Balance of Statement of Profit and Loss (₹ 34,000 – 24,000)		10,000
Add : Non-operating or Non-cash Expenses :		
Depreciation on Furniture	1,000	
Depreciation on Plant/Machinery	11,500	
Transfer to General Reserve	10,000	
Loss on Sale of Plant	2,000	
Proposed Dividend	12,000	36,500
		46,500
Less : Non-operating Income :		
Profit on Sale of Furniture		– 500
Funds from Operation		46,000

Statement of Changes in Working Capital

(for the year ending 31st March, 2018)

	2017	2018	Effect on Working Capital	
			Increase	Decrease
	₹	₹	₹	₹
Current Assets :				
Inventory	65,000	52,500	—	12,500
Trade Receivables	37,500	42,500	5,000	—
Cash	7,500	13,000	5,500	—
	1,10,000	1,08,000		
Current Liabilities :				
Trade Payables	65,000	75,000	—	10,000
	65,000	75,000		
Net Decrease in Working Capital			12,000	—
		₹	22,500	22,500

Fund Flow Statement

(for the year ending 31st March, 2018)

Sources	Amount	Application	Amount
	₹		₹
Issue of Share Capital (₹ 1,20,000 – 1,00,000)	20,000	Redemption of Debentures	25,000
Share Premium	5,000	Purchase of Land and Building (₹ 75,000 – 52,500)	22,500
Sale of Furniture	1,000	Plant & Machinery Purchase	25,000
Sale of Plant & Machinery	1,500	Purchase of Furniture	3,000
Fund from Operation	46,000	Dividend Paid (2018)	10,000
Decrease in Working Capital	12,000		
	85,500		85,500

Note : The value of Debenture in the year 2018 which means debenture of 2017 has been paid in the year 2018.

Illustration 50

From the following Balance Sheet of Sonu Ltd. as at 31st March, 2017 and 2018, you are required to prepare a Statement showing Changes in Working Capital and a Fund Flow Statement :

Balance Sheet of Sonu Ltd.

(as at 31st March, 2017 and 2018)

Particulars	*Note No.*	2018	2017
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Funds* :			
Share Capital		2,50,000	2,00,000
Statement of Profit & Loss		40,000	35,000
Reserves		30,000	30,000
2. *Non-current Liabilities* :			
Provision for Taxation (Long-term Provision)		50,000	40,000
3. *Current Liabilities* :			
Trade Payables		42,000	40,000
Bills Payable		10,000	30,000
Total (1 + 2 + 3)		4,22,000	3,75,000
II. *ASSETS*			
1. *Non-current Assets* :			
Land and Building (Tangible)		1,35,000	1,40,000
Plant & Machinery (Tangible)		1,10,000	1,00,500
Goodwill (Intangible)		13,750	–
2. *Current Assets* :			
Inventory		90,000	1,10,000
Trade Receivables		70,000	80,000
Cash at Bank		2,500	2,000
Sundry Advances		750	2,500
Cash & Cash Equivalents :			
Bank Overdraft		—	(60,000)
Total (1 + 2)		4,22,000	3,75,000

Additional Informations :

1. During the year ended 31st March, 2018 an interim dividend was paid for ₹ 20,000.
2. The assets of the another Company were purchased for ₹ 50,000 payable in fully paid shares of the Company. These assets consisted of Stock ₹ 15,000, Machinery ₹ 21,250 and Goodwill ₹ 13,750. Sundry Purchase of Plant were made of ₹ 5,000.
3. Income-tax paid during the year ₹ 20,000.

Solution

Working Notes :

Dr. **1. Share Capital Account** *Cr.*

	Amount		*Amount*
	₹		₹
To Balance c/d	2,50,000	By Balance b/d	2,00,000
		By Stock (Source of Fund)	15,000
		By Plant & Machinery	21,250
		By Goodwill	13,750
	2,50,000		2,50,000

2. Plant and Machinery Account

Dr.	Amount		Cr. Amount
	₹		₹
To Balance b/d	1,00,500	By Statement of Adjusted P/L for Dep. (Bal. fig.)	16,750
To Share Capital A/c (Purchase)	21,250	By Balance c/d	1,10,000
To Cash Purchased	5,000		
	1,26,750		1,26,750

3. Provision for Taxation Account

Dr.	Amount		Cr. Amount
	₹		₹
To Cash (Paid)	20,000	By Balance b/d	40,000
To Balance c/d	50,000	By Statement of Adjusted P/L (Bal. fig.)	30,000
	70,000		70,000

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Balance of Statement of Profit & Loss (₹ 40,000 – 35,000)		5,000
Add : Non-operating / Non-cash Expenses :		
Plant & Machinery (Depreciation)	16,750	
Land & Building (Depreciation) (₹ 1,40,000 – 1,35,000)	5,000	
Provision for Taxation	30,000	
Interim Dividend	20,000	+ 71,750
		76,750
Less : Non-operating Income		—
Funds from Operations		76,750

Statement of Changes in Working Capital
(for the year ending 31st March, 2018)

	2017	2018	Effect on Working Capital	
			Increase	Decrease
	₹	₹	₹	₹
Current Assets :				
Cash at Bank	2,000	2,500	500	—
Trade Receivables	80,000	70,000	—	10,000
Sundry Advances	2,500	750	—	1,750
Inventory	1,10,000	90,000	—	20,000
	1,94,500	1,63,250		
Current Liabilities :				
Trade Payables	40,000	42,000	—	2,000
Trade Payable	30,000	10,000	20,000	—
Bank Overdraft	60,000	—	60,000	—
	1,30,000	52,000		
Net Increase in Working Capital				46,750
			80,500	80,500

Fund Flow Statement

(for the year ending 31st March, 2018)

Sources	*Amount*	*Applications*	*Amount*
	₹		₹
Issue of Share Capital (Stock)	15,000	Purchase of Plant & Machinery	5,000
Funds from Operation	76,750	Payment of Income-tax	20,000
		Payment of Interim Dividend	20,000
		Net Increase in Working Capital	48,750
	91,750		91,750

Notes : 1. Although share capital has been increased by ₹ 50,000 but shares of ₹ 15,000 have been issued against stock and rest shares have been issued against fixed assets, hence they have not been treated as sources of fund.

2. Bank Overdraft has been treated as Current Liability.

Illustration 51

From the following Balance Sheets, prepare a Statement of Changes in Working Capital and a Statement of Fund-Flow :

Name of the Company ....

Balance Sheet

(as at 31st March, 2017 and 2018)

Particulars	*Note No.*	2018	2017
I. *EQUITY & LIABILITIES*		₹	₹
1. *Shareholders' Funds* :			
Share Capital		3,50,000	3,00,000
12% Preference Share Capital		1,00,000	2,00,000
Reserve		2,70,000	1,10,000
Discount on Issue of Debentures		(5,000)	(10,000)
2. *Non-current Liabilities* :			
8% Debentures		2,00,000	1,00,000
3. *Current Liabilities* :			
Current Liabilities		1,45,000	70,000
Provision for Doubtful Debts		15,000	10,000
Total (1 + 2 + 3)		10,75,000	7,80,000
II. *ASSETS*			
1. *Non-current Assets* :			
Fixed Assets		6,20,000	5,10,000
Investments		80,000	30,000
2. *Current Assets* :			
Current Assets		3,75,000	2,40,000
Total (1 + 2)		10,75,000	7,80,000

The provision for depreciation is shown at ₹ 1,50,000 on 31st March, 2017 and ₹ 1,90,000 on 31st March, 2018.

(1) A machine costing ₹ 70,000 (Book Value ₹ 40,000) was disposed off for ₹ 25,000.

(2) Preference Share was redeemed on 1st April, 2017 at a Premium of 5%.

(3) Dividend at 15% was paid on Equity Shares for the year 2018.

Solution

Working Notes :

1. Provision for Depreciation Account

Dr.	Amount		Cr. Amount
	₹		₹
To Machine Disposal A/c (₹ 70,000 – 40,000)	30,000	By Balance b/d	1,50,000
To Balance c/d	1,90,000	By Statement of Adjusted P/L (Bal. fig.)	70,000
	2,20,000		2,20,000

2. Fixed Assets (Machine) Account

Dr.	Amount		Cr. Amount
	₹		₹
To Balance b/d (₹ 5,10,000 + 1,50,000)	6,60,000	By Machine Disposal A/c	70,000
To Cash (Purchase)	2,20,000	By Balance c/d (₹ 6,20,000 + 1,90,000)	8,10,000
	8,80,000		8,80,000

3. Machine Disposal Account

Dr.	Amount		Cr. Amount
	₹		₹
To Fixed Assets A/c	70,000	By Provision for Dep. A/c (₹ 70,000 – 40,000)	30,000
		By Bank A/c	25,000
		By Statement of Adjusted P/L (Bal. fig.)	15,000
	70,000		70,000

Statement of Adjusted Profit and Loss

Particulars		₹	₹
Balance of Statement of Profit & Loss (₹ 2,70,000 – 1,10,000)			1,60,000
Add : Non-operating / Non-cash Expenses :			
Loss on Sale of Machinery		15,000	
Premium on Redemption of Preference Share		5,000	
Discount on Issue of Debenture Written off		5,000	
Dividend :	₹		
Preference Share	12,000		
Equity Share Capital	45,000	57,000	
Depreciation on Fixed Assets (Machinery)		70,000	1,52,000
			3,12,000
Less : Non-operating Income			—
Funds from Operations			3,12,000

Statement of Changes in Working Capital

(for the year ending 31st March, 2018)

	2017	2018	Effect on Working Capital	
			Increase	Decrease
	₹	₹	₹	₹
Current Assets	2,40,000	3,75,000	1,35,000	—
	2,40,000	3,75,000		

Current Liabilities	70,000	1,45,000	—	[illegible]
Provision for Doubtful Debts	10,000	15,000	—	[illegible]
	80,000	1,60,000		
Net Increase in Working Capital			1,35,000	[illegible]
				[illegible]

Fund Flow Statement

(for the year ending 31st March, 2018)

Sources	*Amount*	*Applications*		*Amount*
	₹		₹	₹
Funds from Operation	3,12,000	Purchase of Fixed Assets		2,20,000
Issue of Shares	50,000	Purchase of Investment		50,000
Issue of Debentures	1,00,000	Redemption of Preference Share (₹ 1,00,000 + 5,000)		1,05,000
Sale of Machines	25,000	Payment of Dividend :		
		Pref.	12,000	
		Equity	45,000	57,000
		Net Increase in Working Capital		55,000
	4,87,000			4,87,000

Note : Before payment of dividend to equity shareholders, dividend to preference shareholder's must be paid whether it is mentioned or not in question.

Illustration 52

From the following Balance Sheets of Jai Hind Ltd., prepare :

(i) Statement of Changes in Working Capital

(ii) Fund-Flow Statement

Balance Sheet of Jai Hind Ltd.

(as at 31st March .....)

Particulars	*Note No.*	2018	2017
I. *EQUITY & LIABILITIES*		₹	₹
1. *Shareholders' Funds* :			
Share Capital		4,50,000	3,50,000
Redeemable Preference Share Capital		50,000	1,00,000
Capital Reserve (L. & B.)		20,000	—
General Reserve		40,000	30,000
Statement of Profit & Loss		58,000	40,000
Securities Premium Reserve		20,000	15,000
Preliminary Expenses		(5,000)	(10,000)
2. *Non-current Liabilities* :			
Proposed Dividend		50,000	42,000
Provision for Taxation		50,000	40,000
3. *Current Liabilities* :			
Trade Payable :			
B/P		20,000	24,000
Creditors		43,000	21,000
O/s Expenses		36,000	30,000
Total (1 + 2 + 3)		8,32,000	6,82,000

ASSETS			
1. *Non-current Assets :*			
Land & Building (Tangible)		1,70,000	2,00,000
Plant and Machinery (Tangible)		2,00,000	80,000
Goodwill (Intangible)		1,05,000	1,20,000
Investment (Fixed)		30,000	20,000
2. *Current Assets :*			
Inventory (Stock)		1,00,000	70,000
Trade Receivables :			
Sundry Debtors		1,70,000	1,40,000
B/R		39,000	27,000
Cash in hand		5,000	10,000
Cash at Bank		13,000	15,000
Total (1 + 2)		8,32,000	6,82,000

Additional Informations :

1. A piece of land has been sold out in 2018 and the profit on the sales has been credited to Capital Reserve A/c.
2. A machine has been sold for ₹ 10,000. The written down value of the machine was ₹ 12,000 and depreciation of ₹ 10,000 has been written to Statement of P/L in 2018.
3. The investments are trade investments on which ₹ 3,000 is received as dividend (including ₹ 1,000 pre-acquisition profit). This profit has been credited to Investment A/c.
4. During the year 2018 ₹ 20,000 was distributed as interim dividend.

Solution

Working Notes :

1. Land & Building Account

Dr. *Cr.*

	Amount		Amount
	₹		₹
To Balance b/d	2,00,000	By Cash (Sales) (Bal. fig.)	50,000
To Capital Reserve	20,000	By Balance c/d	1,70,000
	2,20,000		2,20,000

2. Plant & Machinery Account

Dr. *Cr.*

	Amount		Amount
	₹		₹
To Balance b/d	80,000	By Statement of Adjusted P/L (Dep.)	10,000
To Cash Purchases (Bal. fig.)	1,42,000	By Cash (Sales)	10,000
		By Statement of P/L (Loss on Sales of Plant)	2,000
		By Balance c/d	2,00,000
	2,22,000		2,22,000

3. Investment Account

Dr. *Cr.*

	₹		₹
To Balance b/d	20,000	By Dividend A/c (Pre-acquisition)	1,000
To Purchase of Investment (Bal. fig.)	11,000	By Balance c/d	30,000
	31,000		31,000

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Balance of Statement of Profit & Loss (₹ 58,000 – 40,000)		18,000
Add : Non-operating Expenses / Non-cash Expenses :		
Goodwill Written-off	15,000	
Preliminary Expenses (Written-off)	5,000	
Depreciation on Plant/Machinery	10,000	
Loss on Sale of Plant	2,000	
Dividend	50,000	
Provision for Taxation	50,000	
Interim Dividend Paid	20,000	
General Reserve	10,000	1,62,000
		1,80,000
Less : Non-operating Income :		
Dividend received of Pre-acquisition (₹ 3,000 – 1,000)	2,000	– 2,000
Funds from Operations		1,78,000

Statement of Changes in Working Capital

	2017	2018	Effect on Working Capital	
			Increase	Decrease
Current Assets :	₹	₹	₹	₹
Cash in hand	10,000	5,000	—	5,000
Cash at Bank	15,000	13,000	—	2,000
B/R	27,000	39,000	12,000	—
Trade Receivables	1,40,000	1,70,000	30,000	—
Inventory	70,000	1,00,000	30,000	—
	2,62,000	3,27,000		
Current Liabilities :				
Trade Payables	24,000	20,000	4,000	—
Trade Payable	21,000	43,000	—	22,000
O/s Exp.	30,000	36,000	—	6,000
	75,000	99,000		
Net Increase in Working Capital				41,000
			76,000	76,000

Fund-Flow Statement
(for the year ending 31.3.2018)

Sources	*Amount*	*Application*	*Amount*
	₹		₹
Fund from Operation	1,78,000	Dividend paid	42,000
Sales of L. & B.	50,000	Net Increase in Working Capital	41,000
Sales of P. & M.	10,000	Interim Dividend paid	20,000
Dividend received	3,000	Purchase of Plant	1,42,000
Issue of Equity Share Capital (₹ 4,50,000 – 3,50,000)	1,00,000	Redemption of Pref. Share Capital (₹ 1,00,000 – 50,000)	50,000
Securities Premium Reserve	5,000	Tax Paid	40,000
		Purchase of Investment	11,000
	3,46,000		3,46,000

Illustration 53

Prepare a Funds Flow Statement from the following data of Amit Ltd. :

	March, 31 2018	March, 31 2017
	₹	₹
Cash	20,860	11,630
Trade Receivables	31,625	45,425
Allowances for Bad Debts	4,375	4,650
Trading Stock	59,688	61,600
Furniture & Fixtures	43,750	30,000
Truck	47,500	28,750
Accumulated Depreciation on Truck	11,250	7,500
Trade Payable	55,305	48,200
Share Capital	1,25,000	1,25,000
Retained Earnings (+) Profit (–) Loss	+ 7,992	– 7,945

A Dividend of ₹ 12,500 was paid in 2017-18. Depreciation on furniture and fixtures amounted to ₹ 3,000 in 2017-18. It was credited to Asset A/c.

Solution

Schedule of Changes in Working Capital

Particulars	*31st March*		*Working Capital Changes*	
	2017	2018	*Increase*	*Decrease*
	₹	₹	₹	₹
Current Assets :				
Cash	11,630	20,860	9,230	—
Trade Receivable (*less* Allowances)	40,775	27,250	—	13,525
Trading Stock	61,600	59,687	—	1,913
	1,14,005	1,07,798		
Current Liabilities :				
Trade Payables	48,200	55,305	—	7,105
	48,200	55,305		
Working Capital	65,805	52,493		
Decrease in Working Capital	—	13,313	13,313	
	65,805	65,805	22,543	22,543

Funds Flow Statement

Sources of Funds	₹	*Uses of Funds*	₹
Funds from Operations (Note 1)	34,688	Purchases of Furniture (Note 2)	16,750
Decreases in Working Capital	13,313	Purchases of Truck	18,750
		Payment of Dividend	12,500
	48,000		48,000

Note 1.

Adjusted Profit & Loss Account

	Amount		Amount
	₹		₹
To Balance b/d (Loss)	7,945	By Funds from Operations	34,688
To Dividend	12,500		
To Dep. on Furniture	3,000		
To Dep. on Truck	3,750		
To Balance c/d	7,493		
	34,688		34,688

Note 2.

	₹
Opening Balance of Furniture	30,000
Less : Depreciation	3,000
	27,000
Purchase of Furniture (Bal. fig.)	16,750
Closing Balance of Furniture	43,750

Note : Allowances for bad debts has been deducted from Trade Receivable. This allowances can also be shown as current liability in Statement of Changes in Working Capital. Answer will remain unaffected.

Illustration 54

From the following Balance Sheets, prepare a Statement of Changes in Working Capital and a Fund Flow Statement :

Name of the Company .....
Balance Sheet
(as at 31st March, ...)

Particulars	*Note No.*	2018	2017
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Funds* :			
Share Capital		2,50,000	1,25,000
Statement of Profit & Loss		62,500	37,500
Securities Premium Reserve		15,000	10,000
Preliminary Expenses		(6,250)	(10,000)
2. *Non-current Liabilities* :			
Debentures		62,500	–
Proposed Dividend		15,000	12,500
3. *Current Liabilities* :			
Trade Payables		75,000	50,000
O/s Expenses		8,750	12,500
Total (1 + 2 + 3)		4,82,500	2,37,500
II. *ASSETS*			
1. *Non-current Assets* :			
Plant (Tangible)		2,40,000	45,000
Goodwill (Intangible)		62,500	37,500
2. *Current Assets* :			
Inventory		87,500	1,00,000
Trade Receivables		81,250	37,500
Cash		37,500	30,000
Overdraft		(26,250)	(12,500)
Total (1 + 2)		4,82,500	2,37,500

Additional Informations :

1. A business was purchased during the year by issue of ₹ 62,500 share capital and ₹ 62,500 debentures.
2. Depreciation of ₹ 15,000 was provided during the year.
3. A machine has been sold for ₹ 3,750, its W.D.V. being ₹ 2,500.
4. The business purchased has the following Assets and Liabilities :
   Machineries ₹ 50,000; Stock ₹ 12,500; Debtors ₹ 37,500 and Creditors ₹ 12,500.

Solution

Working Notes :

1. Calculation of goodwill on business purchase :

		₹	₹
Machinery A/c	Dr.	50,000	
Stock A/c	Dr.	12,500	
Debtors A/c	Dr.	37,500	
Goodwill A/c (Bal. fig.)	Dr.	37,500	
To Creditors A/c			12,500
To Share Capital A/c			62,500
To Debentures A/c			62,500

Clarification of Issue of Share Capital and Debenture :

(1) Goodwill A/c	Dr.	37,500	
Machinery A/c	Dr.	25,000	
To Debentures A/c			62,500
(2) Machinery A/c	Dr.	25,000	
To Share Capital			25,000
(3) Current Assets (Debtors) A/c	Dr.	37,500	
To Share Capital A/c			37,500
(4) Cash/Bank A/c	Dr.	62,500	
To Share Capital A/c			62,500

1. Goodwill Account

Dr. *Cr.*

	Amount		Amount
	₹		₹
To Balance b/d	37,500	By Statement of Adjusted P/L (Goodwill Written off) (Bal. fig.)	12,500
To Debenture A/c	37,500	By Balance c/d	62,500
	75,000		75,000

2. Debenture Account

Dr. *Cr.*

	Amount		Amount
	₹		₹
To Balance c/d	62,500	By Goodwill A/c	37,500
		By Machinery A/c	25,000
	62,500		62,500

Dr. **3. Share Capital Account** Cr.

	Amount		Amount
	₹		₹
To Creditors A/c	12,500	By Balance b/d	1,25,000
To Balance c/d	2,50,000	By Machinery A/c	25,000
		By Stock	12,500
		By Debtors A/c	37,500
		By Cash A/c (Bal. fig.)	62,500
	2,62,500		2,62,500

Note : Share Capital issued for net current assets :
= (Debtors + Stock – Creditors)
= (₹ 37,500 + 12,500 – 12,500) = ₹ 37,500

Dr. **4. Plant and Machinery Account** Cr.

	Amount		Amount
	₹		₹
To Balance b/d	45,000	By Statement of Adjusted P/L (Dep.)	15,000
To Profit on Sale	1,250	By Cash (Sales)	3,750
To Debenture A/c	25,000	By Balance c/d	2,40,000
To Share Capital A/c	25,000		
To Cash (Purchase)	1,62,500		
	2,58,750		2,58,750

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Balance of Statement of Profit & Loss (₹ 62,500 – 37,500)		25,000
Add : Non-operating/Non-cash Expenses :		
Depreciation (Plant and Machinery)	15,000	
Goodwill (Written off)	12,500	
Proposed Dividend	15,000	
Preliminary Expenses (Written off)	3,750	46,250
		71,250
Less : Non-operating Income :		
Profit on Sale of Machinery	1,250	– 1,250
Funds from Operation		70,000

Statement of Changes in Working Capital

	2017	2018	*Effect on Working Capital*	
			Increase	*Decrease*
Current Assets :	₹	₹	₹	₹
Cash	37,500	30,000	7,500	—
Trade Receivables	37,500	81,250	43,750	—
Inventory	1,00,000	87,500	—	12,500
	1,75,000	1,98,750		

Current Liabilities :				
Trade Payables	50,000	75,000	—	25,000
O/s Expenses	12,500	8,750	3,750	—
Overdraft	12,500	26,250	—	13,750
	75,000	1,10,000		
Net Increase in Working Capital			3,750	—
			55,000	55,000

Fund Flow Statement
(for the year ending 31.3.2018)

Sources	*Amount*	*Applications*	*Amount*
	₹		₹
Funds from Operation	70,000	Purchases of P. & M.	1,62,500
Sale of Machinery	3,750	Payment of Dividend	12,500
Issue of Share Capital (Current Assets)	37,500	Increase in Working Capital	3,750
Issue of Share Capital (Cash)	62,500		
Share Premium Reserve (₹ 15,000 – 10,000)	5,000		
	1,78,750		1,78,750

Illustration 55

The Statement of the Retained Earnings of Monika Ltd. is given below :

	₹	₹
Balance of Retained Earnings, July 1, 2017		4,50,000
Add : Net Incomes of Income-taxes		8,50,000
Tax Refunds		30,000
		13,30,000
Less : Dividends	5,80,000	
Cost of Investment in foreign subsidiary written off	1,20,000	
Loss on Sale of Plant	10,000	7,10,000
Balance of Retained Earnings June, 2017		6,20,000

1. Depreciation of ₹ 80,000 was deducted in arriving at net income for the financial year.
2. Plant having a net book value of ₹ 40,000 was sold in August, 2017.
3. Plant Properties were increased during the financial year at a cost of ₹ 2,30,000 and the increase were financed by notes during 2017.
4. Preference Share were redeemed for ₹ 75,000.

You are required to prepare a Fund-Flow Statement for the year ended 30th June, 2018.

Solution

Working Notes :

1. *Fund from Operation* :

	₹
Net Profit after Income-tax	8,50,000
Add : Depreciation	80,000
Fund from Operation	9,30,000

2. *Sale of Plant* :

Book Value of Plant Sold	40,000
Less : Loss on Sale of Plant	10,000
Source from Sale of Plant	30,000

Fund-Flow Statement
(for the year ended 30th June, 2018)

Sources	Amount	Applications	Amount
	₹		₹
Sale of Plant	30,000	Dividend paid	5,80,000
Tax Refund	30,000	Payment of Preference Dividend	75,000
Fund from Operation	9,30,000	Increase in Working Capital (Bal. fig.)	3,35,000
	9,90,000		9,90,000

Note : Notes payable on 2017 which have been issued for the purchase of Plant, will not be shown in the Fund-Flow Statement because both (Plant & Notes) are of fixed nature.

Illustration 56

Non-current assets and equities of Priyanka Ltd. are given at the beginning and at the end of the year 2017-18 :

	2018	2017
	₹	₹
Plant and Equipment (Net Depreciation)	1,80,000	80,000
Investment in Shares	4,00,000	2,80,000
Bonds Payable	1,00,000	4,00,000
Capital Stock	5,00,000	5,00,000
Retained Earnings	5,50,000	2,40,000

You are unable to obtain complete Balance Sheet or Income Statement data for the year but you have obtained the following information :

1. Dividend of ₹ 40,000 were paid.

2. Again on the Sale of Plant of ₹ 20,000 has been included in net income. The gross Plant-Assets increased by ₹ 1,50,000 even though equipment costing ₹ 50,000 with a net book value of ₹ 30,000 was sold.

Prepare a Statement of Sources and Uses of Net Working Capital from the information mentioned above.

Solution

Working Note :

Dr. **1. Plant Account** *Cr.*

	₹		₹
To Balance b/d	80,000	By Cash (₹ 20,000 + 30,000)	50,000
To Statement of Profit and Loss (Profit on Sale)	20,000	By Statement of Adjusted P/L (Depreciation) (Bal. fig.)	70,000
To Cash Purchase (1,50,000 + 50,000)	2,00,000	By Balance c/d	1,80,000
	3,00,000		3,00,000

Statement of Adjusted Profit and Loss

Particulars	₹	₹
Balance of Statement of Profit & Loss (₹ 5,50,000 – 2,40,000)		3,10,000
Add : Non-operating Expenses/Non-cash Expenses :		
Depreciation	70,000	
Dividend	40,000	1,10,000
		4,20,000
Less : Profit on Sale of Plant		– 20,000
Funds from Operations		4,00,000

Fund-Flow Statement
(for the year ending 31.3.2018)

Sources	Amount	Application	Amount
	₹		₹
Fund from Operation	4,00,000	Purchase of Plant	2,00,000
Sale of Plant	50,000	Purchase of Investment (₹ 4,00,000 – 2,80,000)	1,20,000
Decrease in Working Capital (Bal. fig.)	2,10,000	Payment of Bonds	3,00,000
		Payment of Dividend	40,000
	6,60,000		6,60,000

Illustration 57

From the following Balance Sheets of Alam Ltd., prepare a Fund-Flow Statement :

Balance Sheet of Alam Ltd.
(as at....)

Particulars	Note No.	2018	2017
I. *EQUITY & LIABILITIES*		₹	₹
1. *Shareholders' Funds* :			
Share Capital		5,50,000	4,50,000
General Reserve		3,10,000	3,00,000
Statement of Profit and Loss		68,000	56,000
2. *Non-current Liabilities* :			
Mortgage Loan		1,70,000	—
Provision for Taxation		10,000	75,000
3. *Current Liabilities* :			
Trade Payables		1,34,000	1,68,000
Total (1 + 2 + 3)		12,42,000	10,49,000
II. *ASSETS*			
1. *Non-current Assets* :			
Fixed Assets		3,20,000	4,00,000
Investments		60,000	50,000
2. *Current Assets* :			
Inventory		2,10,000	2,40,000
Trade Receivables		4,55,000	2,10,000
Bank		1,97,000	1,49,000
Total (1 + 2)		12,42,000	10,49,000

Additional Informations :

1. Provision for taxation made during the year amounted to ₹ 9,000.
2. Dividend paid during the year ₹ 25,000
3. During the year a machine was sold for ₹ 12,000. It was bought for ₹ 10,000.

Solution

Working Notes :

1. Provision for Taxation Account

Dr. *Cr.*

	₹		₹
To Cash (Tax Paid) (Bal. fig.)	74,000	By Balance b/d	75,000
To Balance c/d	10,000	By Statement of Adjusted P/L	9,000
	84,000		84,000

2. Calculation of Funds from Operations

Particulars	₹	₹
Balance of Statement of Profit & Loss (₹ 68,000 – 56,000)		12,000
Add : Non-operating Expenses/Non-cash Expenses :		
Provision for Taxation	9,000	
Dividend Paid	25,000	
Transfer to General Reserve	10,000	
		44,000
		56,000
Less : Non-operating Income :		
Profit on Sale of Machine (₹ 12,000 – 10,000)		– 2,000
Funds from Operations		54,000

3. Fixed Assets Account

Dr.	₹		Cr. ₹
To Balance b/d	4,00,000	By Cash A/c (Sale of Machine Part of FA)	12,000
To Profit on Sale of Fixed Asset	2,000	By Cash A/c (Sale of Fixed Assets) (Bal. fig)	70,000
		By Balance c/d	3,20,000
	4,02,000		4,02,000

4. Statement of Changes in Working Capital

	2017	2018	Effect on Working Capital	
			Increase	Decrease
	₹	₹	₹	₹
Current Assets :				
Bank	1,49,000	1,97,000	48,000	–
Trade Receivables	2,10,000	4,55,000	2,45,000	–
Inventory	2,40,000	2,10,000	—	30,000
	5,99,000	8,62,000		
Current Liabilities :				
Trade Payables	1,68,000	1,34,000	34,000	–
	1,68,000	1,34,000		
Net Increase in W. C.				2,97,000
			3,27,000	3,27,000

Fund-Flow Statement
(for the year ending 31.3.2018)

Sources of Fund	*Amount*	*Applications of Fund*	*Amount*
	₹		₹
Fund from Operation	54,000	Net Increase in W.C.	2,97,000
Issue of Share Capital	1,00,000	Investment	10,000
Mortgage Loan taken	1,70,000	Tax Paid	74,000
Sale of Fixed Assets	70,000	Dividend Paid	25,000
Sale of Machine	12,000		
	4,06,000		4,06,000

Note : ₹ 70,000 can also be treated as depreciation. Then the amount of fund from operation will be increased to ₹ 1,24,000 (*i.e.* 54,000 + 70,000). In other words, in such cases this ₹ 70,000 will be shown in the debit side of Adjustment Statement of Profit and Loss as depreciation charged on fixed assets. In both cases the total of Fund Flow Statement will be ₹ 4,06,000.

Illustration 58

The following is the Balance Sheet of Poonam Ltd. as on 31st March, 2018 :

Balance Sheet of Poonam Ltd.

(as at 31st March, 2018)

Particulars	Note No.		2018
		₹	₹
I. EQUITY & LIABILITIES			
1. *Shareholders' Funds* :			
Capital			1,20,000
Statement of Profit and Loss			8,000
2. *Current Liabilities* :			
Trade Payables			25,000
Total (1 + 2)			1,53,000
II. ASSETS			
1. *Non-current Assets* :			
Fixed Assets			50,000
2. *Current Assets* :			
Inventory			45,000
Trade Receivables			25,000
Cash and Bank Balance			33,000
Total (1 + 2)			1,53,000

	Upto 28th Feb., 2018	*31st March, 2018*
	₹	₹
Purchases	1,52,000	10,500
Sales	2,24,000	25,000

Additional Informations :

1. It has been decided to invest ₹ 15,000 in purchase of fixed assets which are depreciated @ 10%.
2. The time lag for payment to creditors and receipt from debtors is one month.
3. The business earns a gross profit on $33\frac{1}{3}$% on sales.
4. Sundry expenses against gross profit will amount to 12% of the sales (excluding depreciation).

You are required to prepare Projected Fund-Flow Statement for the year ende 31st March, 2018.

Solution

Statement of Projected Profit and Loss

(for the year ended 31st March, 2018)

Particulars		Amount	Amount
		₹	₹
Revenue from Operations :			2,49,000
(₹ 2,24,000 + 25,000)			—
Add : Other Income	Total Revenue		2,49,000
Less : *Expenses* :	₹		
Cost of Revenue from Operation :	45,000		
Opening Inventory	+ 1,62,500		
Add : Purchase (₹ 1,52,000 + 10,500)	2,07,500		
Less : Closing Inventory	– 41,500	1,66,000	

Expenses $\left(\frac{2,49,000 \times 12}{100}\right)$		29,880	
Depreciation $\left(\frac{50,000 \times 10}{100}\right)$	5,000		
$\frac{15,000 \times 10}{100}$	1,500	6,500	
Net Profit during the year			–2,02,380
			46,620

Projected Balance Sheet
(*as on* 31.3.2018)

Particulars	*Note No.*	*Amount*	*Amount*
I. *EQUITY & LIABILITIES*		₹	₹
1. *Shareholders' Funds* :			
Capital			1,20,000
Statement of Profit and Loss :			
Balance		8,000	
Current Year's Profits		+ 46,620	54,620
2. *Current Liabilities* :			
Trade Payables			10,500
Total (1 + 2)			1,85,120
II. *ASSETS*			
1. *Non-current Assets* :			
Fixed Assets :			
Balance		50,000	
Additional		15,000	
		65,000	
Less : Depreciation		– 6,500	58,500
2. *Current Assets* :			
Inventory			41,500
Trade Receivables			25,000
Cash and Cash Equivalents :			
Cash (Bal. Fig.)			60,120
Total (1 + 2)			1,85,120

Projected Statement of Changes in Working Capital

	31st March, 2017	31st March, 2018	*Effect on W.C.* Increase	Decrease
Current Assets :	₹	₹	₹	₹
Inventroy	45,000	41,500	—	3,500
Trade Receivables	25,000	25,000	—	–
Cash	33,000	60,120	27,120	–
	1,03,000	1,26,620		
Current Liabilities :				
Trade Payables	25,000	10,500	14,500	–
	25,000	10,500		
Net Increase in W. C.			—	38,120
			41,620	41,620

Projected Fund-flow Statement
(for the year ended 31st March, 2018)

Sources		Amount	Applications	Amount
	₹	₹		₹
Fund from Operation :			Purchase of Fixed Assets	15,000
Net Profit	46,620		Increase in W. C.	38,120
Dep.	6,500	53,120		
		53,120		53,120

PREPARATION OF BALANCE SHEET

Illustration 59

From the following Funds Flow Statement and additional information of Ujas Dairy Ltd. for the year 2017-18, compute the net profit of the company and prepare Balance Sheet as on 31st March, 2018 :

Funds Flow Statement

Sources of Funds	₹	Uses of Funds	₹
Fund from Operations	1,10,000	Purchase of Plant	5,00,000
Issue of Equity Shares (50,000 Shares @ ₹ 10 each)	6,00,000	Dividend Paid	35,000
Issue of Debentures	2,65,000	Increase in Working Capital	4,40,000
	9,75,000		9,75,000

Additional Informations :

(i) The company was incorporated on 1st April, 2017.

(ii) Plant was purchased on 1st April, 2017 and a plant of depreciated value of ₹ 20,000 was destroyed by fire on 31st March, 2018.

(iii) Estimated life of plant is 10 years. Straight line method of depreciation is used by the company.

Solution

Computation of Net Profit :

		₹
Fund from Operations		1,10,000
Less : Non-cash Items :	₹	
Depreciation on Plant $\left(\frac{5,00,000}{10}\right)$	50,000	
Loss due to fire	20,000	70,000
	Net Profit	40,000
Less : Dividend Paid		35,000
	Balance of Statement of P. & L.	5,000

Ujas Dairy Ltd.
Balance Sheet
(as on 31.3.2018)

Particulars	Note No.	₹
I. EQUITY & LIABILITIES		
1. *Shareholders' Funds* :		
Equity Share Capital 50,000 Shares of ₹ 10 each		5,00,000
Securities Premium Reserve (₹ 6,00,000 – 5,00,000)		1,00,000
Statement of Profit & Loss		5,000

2. *Non-current Liabilities* :			
Debentures			2,65,000
II. *ASSETS*	Total		8,70,000
1. *Non-Current Assets* :			
Fixed Assets :			
Plant at Cost	₹		
Less : Dep.	5,00,000		
	50,000		
Less : Loss by Fire	4,50,000		
2. Net Current Assets	20,000		
(Increase in Working Capital)			4,30,000
			4,40,000
			8,70,000

OBJECTIVE TYPE QUESTIONS

I. Choose the correct answer :

1. Current assets include :
   (a) Furniture (b) Investment
   (c) Goodwill (d) Trade Receivables
2. Which of the following is non-current asset ?
   (a) Goodwill (b) B/R
   (c) P.P. Expenses (d) Trade Receivables
3. Which of the following is non-current liability ?
   (a) Mortgage Loan (b) Bank Overdraft
   (c) Outstanding Salaries
4. Depreciation on machinery is :
   (a) Source of Funds (b) Application of Funds
   (c) No Flow of Funds
5. Opening stock is :
   (a) Source of Funds (b) Application of Funds
   (c) No Flow of Funds
6. Increase in fixed assets due to purchases is :
   (a) Source of Funds (b) Application of Funds
   (c) None of these
7. Closing Inventory is :
   (a) Application of Funds (b) Source of Funds
   (c) No Flow of Funds
8. Sale of trade investment indicates :
   (a) Changes in Current Assets (b) Application of Funds
   (c) Source of Funds
9. Net Profit + Non-cash Expenses/Losses is equal to :
   (a) Funds from Operation (b) Issue of Shares
   (c) Application of Funds
10. Purchase of goodwill by issue of debenture is :
    (a) Application of Funds (b) Source of Funds
    (c) No Flow of Funds
11. Payment of tax is :
    (a) Application of Funds (b) Source of Funds
    (c) No Flow of Funds

12. Increase in Share Premium Account is :
(a) Application of Funds (b) Source of Funds
(c) No Flow of Funds

13. The term 'fund' as used in Fund-flow Statement means :
(a) Cash (b) Current Assets
(c) Current Liabilities (d) C.A. – C.L.

14. Flow of fund takes place, where :
(a) Cash is paid to creditors (b) Cash is received from debtors
(c) Machinery is purchased for cash

15. Cash sales results into :
(a) Source of Funds (b) Application of Funds
(c) No Flow of Funds

16. Commission paid results into :
(a) Application of Funds (b) Source of Funds
(c) No Flow of Funds

17. Purchase of furniture for cash results into :
(a) Source of Funds (b) Application of Funds
(c) No Flow of Funds

18. Cash received from debtors results into :
(a) Application of Funds (b) Source of Funds
(c) No Flow of Funds

19. Conversion for debenture into share capital results into :
(a) Source of Funds (b) Application of Funds
(c) No Flow of Funds

20. Redemption of preference shares results into :
(a) Source of Funds (b) Application of Funds
(c) No Flow of Funds

21. Sale of building results in :
(a) Application of Funds (b) Source of Funds
(c) No Flow of Funds

22. Issue of share capital in consideration of purchase of machine results in :
(a) Source of Funds (b) Application of Funds
(c) No Flow of Funds

23. Provision for taxation can be treated as :
(a) Only Current Liability (b) Only Appropriation of Profit
(c) Any one of the above two

24. When the total of sources side exceeds the total of application side the affect of it is :
(a) Increase in Net Working Capital (b) Decrease in Net Working Capital
(c) No Effect on Working Capital

[Ans. 1. (d), 2. (a), 3. (a), 4. (a), 5. (b), 6. (b), 7. (b), 8. (c), 9. (a), 10. (c), 11. (a), 12. (b), 13. (d), 14. (c), 15. (c), 16. (a), 17. (b), 18. (c), 19. (c), 20. (a), 21. (a), 22. (c), 23. (c), 24. (a).]

II. Choose the non-current items of the following :

(a) Share Premium (b) Profit and Loss Account
(c) Goodwill Account (d) Payment of Wages
(e) Sundry Payables (f) Bank Overdraft

[Ans. a, b and c]

III. Fill in the blanks :

1. The word 'Fund' means the difference of.....and..... .
2. Purchase of plant will.....working capital.
3. Issue of shares for cash will.....working capital.

DIFFERENCE BETWEEN FUNDS FLOW STATEMENT AND SCHEDULE OF CHANGES IN WORKING CAPITAL

The main difference between these two terms are as follows :

(i) 'Schedule of Changes in Working Capital' is a list of current assets and current liabilities with their values of current and previous year and also increase and decrease in their values. In this way, Schedule of Changes in Working Capital shows net increase or decrease in working capital. Funds Flow Statement on the other hand is the record of inflow and outflow of funds during the current year.

(ii) Net decrease in the working capital is shown in the 'Sources' side of Funds Flow Statement and the net increase at the application side. Funds Flow Statement is based on the information supplied by the Schedule, on the other hand, Schedule is not based on Funds Flow Statement.

(iii) While preparing Funds Flow Statement, the first step is to prepare Schedule of Changes in the Working Capital. It means schedule is prepared before the preparation of Funds Flow Statement.

(iv) Schedule is prepared with the information available from Balance Sheet, whereas Funds Flow Statement is prepared with the help of comparative Balance Sheets and additional information.

(v) Schedule is a vital equipment of Funds Flow Mechanism. It is simply a working for the preparation of Funds Flow Statement. Funds Flow Statement on the other hand, is a device to ascertain how the working capital is managed.

IMPORTANT MATTERS TO BE CONSIDERED WHILE PREPARING FUNDS FLOW STATEMENT

1. PROVISION FOR TAXATION

While preparing a Funds Flow Statement, there are two options available regarding provision for taxation, *i.e.*,

(a) As a current liability,

(b) An appropriation of profits.

(a) As a Current Liability : Provision for Taxation may be considered as a current liability as it, generally, represents an immediate obligation of the company to pay tax to the Government. When it is considered as current liability, provision for taxation will be shown in schedule of changes in working capital like all other current liabilities and no further treatment is required while preparing the Funds Flow Statement. In this case, there is no need to prepare the provision for Taxation Account and the payment of tax made during the year shall not be shown as an Application of Funds or Payment of Tax is required.

(b) As an Appropriation of Profits : When the Provision for Taxation is assumed be an appropriation of profits and not as a current liability, then it will not be shown in the schedule of changes in working capital. Provision for taxation made during the year shall be the appropriation of profits and will have to be added back while finding out funds from operations being a non-fund item. If Statement of adjusted Profit and Loss be prepared, provision for taxation made during the year shall Statement of adjusted Profit and Loss be added for the same reasons. Moreover, the taxes paid during the year shall be an application of funds and will have to be shown in the application side of Funds Flow Statement.

A provision for Taxation Account may have also be prepared in case of hidden information, *i.e.*, when the provision for taxation made during the year or the taxes paid during the year are not given.

IMPORTANT NOTES REGARDING PROVISION FOR TAXATION

(i) As per **Accounting Standard (AS)-3**, Provision for Taxation should considered as a non-current item and, therefore, preferably it should be treat as an Appropriation of Profits.

(ii) If **'Provision for Taxation'** is not given in Comparative Balance Sheet the amont of **'Income-tax'** paid is given in additional information then payment of income-tax will be shown in debit side of Adjusted Profit and L A/c or added to profit in Adjusted Statement of Profit or Loss.

(iii) If the term **'Tax Payable'** has been used in place of **'Provision for Taxati** in Comparative Balance Sheet, then it should be treated as **'Current Liabili**

Illustration 6

	₹
Provision for Taxation 1.1.2017	60,0
Provision for Taxation 1.1.2018	80,0

Additional Information : Income-tax paid during the year ₹ 50,000. You are requir to find out the Provision for Tax made during the year and how will you deal with the items in Funds Flow Statement ?

Solution

(a) When Provision for Taxation is assumed to be Current Liability :

Statement of Changes in Working Capital

	1.1.2017	1.1.2018	*Effect on Working Capital*	
			Increase	*Decrea*
Current Liability :	₹	₹	₹	₹
Provision for Taxation	60,000	80,000	—	20,0
Decrease in Working Capital			20,000	
			20,000	20,0

Treatment : Decrease in working capital ₹ 20,000 will be shown in sources side Funds Flow Statement and in this case tax paid during the year ₹ 50,000 will not considered in Funds Flow Statement.

(b) When Provision for Taxation is assumed to be Appropriation of Profit

Dr. **Provision for Taxation A/c** *Cr.*

	₹		₹
To Cash A/c (Tax Paid)	50,000	By Balance b/d	60,0
To Balance c/d	80,000	By Statement of Adjusted Profit and Loss (Bal. figure)	70,0
	1,30,000		1,30,0

Statement of Adjusted Profit and Loss

	₹
Provision for Taxation	70,0
Funds from Operation	70,0

Fund Flow Statement

Sources of Funds	*Amount*	*Application of Funds*	*Amoun*
	₹		₹
		Payment of Tax	50,0

Illustration 7

	₹
Provision for Taxation 1.4.2017	50,000
Provision for Taxation 31.3.2018	75,000

How these items will be dealt in Funds Flow Statement under both the assumptions ?

Solution

(a) When Provision for Taxation is assumed to be Current Liability

In this case, Provision for Taxation will be shown in the Schedule of Changes in Working Capital and ₹ 25,000 (₹ 75,000 – 50,000) will be considered as decrease in working capital which will be shown in the sources side of Funds Flow Statement.

(b) When Provision for Taxation is assumed to be Appropriation of Profits :

Provision for Taxation A/c

Dr. Cr.

	₹		₹
To Cash (Tax paid of 1.4.2017)	50,000	By Balance b/d (Opening)	50,000
To Balance c/d (Closing)	75,000	By Statement of Adjusted Profit and Loss	75,000
	1,25,000		1,25,000

Statement of Adjusted Profit & Loss

Particulars	₹
Provision for Taxation	75,000
Funds from Operation	75,000

Funds Flow Statement

Sources of Funds	*Amount*	*Application of Funds*	*Amount*
	₹		₹
		Tax Paid	50,000

Illustration 8

	₹
Provision for Taxation 1.4.2017	20,000
Provision for Taxation 31.3.2018	8,000

Additional Information : Provision for Taxation made during the year ₹ 7,000. How these items will be dealt in Funds Flow Statement under both the assumptions ?

Solution

(a) When Provision for Taxation is assumed to be Current Liability :

In this case, it will be shown in the Schedule of Changes in Working Capital and ₹ 12,000 (₹ 20,000 – 8,000) will be considered as increase in working capital which will be shown in the application side of Funds Flow Statement.

(b) When Provision for Taxation is assumed to be Appropriation of Profits :

Provision for Taxation Account

Dr. Cr.

	₹		₹
To Cash (Tax paid) (Bal. fig.)	19,000	By Balance b/d	20,000
To Balance c/d (Closing)	8,000	By Statement of Adjusted Profit and Loss	7,000
	27,000		27,000

Statement of Adjusted P/L

Particulars	
Provision for Taxation	
Funds from Operation	

Funds Flow Statement

Sources of Funds	*Amount* ₹	*Application of Funds*	
		Tax Paid	

2. PROPOSED DIVIDENDS

Whatever has been said about the "Provision for Taxation" is also applic "Proposed Dividends". Proposed Dividend can also be dealt within two ways *i.e.*, (a) it as Current Liability, or (b) to treat it as an Appropriation of Profit. However, log should be treated as an Appropriation of Profit or as Non-current Liability. The behind it are as follows :

(i) It is merely a recommendation of Board of Directors and does not Liability till it is approved by Shareholders at the Annual General Mee

(ii) As per **'Accounting Standard (AS)-3'** also, payment of dividend must be as separate item of Application of Cash.

Therefore, in the absence of any other information, proposed dividend for the pr year is assumed as paid during the current year and is shown as an Application of while the proposed dividend of the current year, being an Appropriation of Profits, is back in Statement of Adjusted Profit and Loss, for the calculation of Funds from Ope

IMPORTANT NOTES REGARDING PROPOSED DIVIDEND

(i) If the payment of dividend or interim dividend is given in additional inform then on the first hand, it is shown on the debit side of Adjusted P/L Ac added back to the net profit while calculating Funds from Operation) the other hand, it is shown as payment of dividend in application side of Flow Statement.

(ii) If proposed dividend for the current year is given in additional information it is not adjusted anywhere.

3. INTERIM DIVIDENDS

The term "Interim Dividend" denotes a dividend paid to the members of the com during a financial year, before the finalisation of annual accounts. The dividend p declared between the two annual general meetings is called interim dividend, which s be added back to the current years profit while calculating funds from operations. How if the figure of profit is taken prior to the debit of interim dividend this adjustment required. The interim dividend is also an application of funds and has to appear application side of Funds Flow Statement.

4. PROVISION AGAINST CURRENT ASSETS

Provision against current assets, such as, provision for bad and doubtful d provision for loss on stock, etc. may be treated by any of the following methods :

(i) The opening and closing balance of provision against current assets show deducted from the respective opening and closing balance of the concerned asset. Th

amount of the current assets should then be shown in the Schedule of Changes in Working Capital. It does not require any further treatment in the Funds Flow Statement.

(ii) The amount of the opening and closing balance of the current assets may be taken as gross in the schedule of changes in working capital, *i.e.*, without deducting the amount of provision. But, then, the opening and closing balance of the provision against current assets shall have to be taken as current liability in the schedule of changes in working capital and it will not need any further treatment in the funds flow statement.

(iii) If excess provision has been created, it may be treated as an appropriation of profits and should be added back to current years profits while calculating Funds from Operations. The amount of excess provision will not be shown in the Schedule of Changes in Working Capital.

5. INVESTMENTS

While preparing Funds Flow Statement the treatment of investments depends upon their nature, that they are current assets or non-current assets. If the investments represent surplus funds temporarily invested in short-term securities, they are to be considered as current assets. But, if investments are long-term, these should be treated as fixed assets.

(a) **Temporary Investments** : When the surplus funds are temporarily invested in marketable securities, they are treated as current assets and hence shown in the Schedule of Changes in Working Capital. Temporary investments do not require any further treatment while preparing Funds Flow Statement.

(b) **Non-current Investments** : If the investments are of non-current nature, these should not be shown in the Schedule of Changes in Working Capital. However, in this case an investment account should be prepared to find out the cost of investments purchased or sold during the year and the profit or loss on sale of such investments, if any. Sometimes, the investments are purchased cum-dividend and the pre-acquisition dividend received is credited to the investment account. If there is a loss on sale of such investments and it has been deducted from Profit and Loss Statement, it should be added back to current years profit while finding out funds from operations for the reason that such loss is not an operating loss. However, for the same reason, if a profit on sale of investment has been added to Profit and Loss Statement, it should be deducted while finding out funds from operations. The sale proceeds of such investments are a source of funds.

Illustration 9

The Balance Sheet of Mr. Jayant reveal that there is an opening balance of investment amounting to ₹ 15,000 and a closing balance of ₹ 22,500, ₹ 2,000 by way of dividend have been received during the year including ₹ 100 from pre-acquisition profits which have been added to Investment Account.

Further, during the year investment costing ₹ 7,500 were sold for ₹ 5,000.

You are required to find out the cost of investment purchased during the year to be shown as application of funds.

Solution

Dr. **Investment Account** *Cr.*

	₹		₹
To Balance b/d	15,000	By Cash (Sales)	5,000
To Cash (Purchase) (Bal. fig.)	15,100	By Statement of Adjusted P/L (₹ 7,500 – 5,000)	2,500
		By Dividend (Pre-acquisition)	100
		By Balance c/d (Closing)	22,500
	30,100		30,100

6. INCREASE OR DECREASE IN CAPITAL

Since Trading Profits and Losses are usually transferred to Capital Account in the case of individual proprietorship, there may not appear Profit and Loss A/c balance in their Balance Sheets. In such case Capital Account should be prepared to find out the following information :

(i) Amount of drawing, or

(ii) Net profit earned during the year.

(i) When opening and closing balance of capital and net profit for the year is given :

Illustration 10

The extracts of Balance Sheet of Mr. Sarkar reveals that the opening balance of capital in the business is ₹ 1,25,000 and closing balance of capital is ₹ 1,53,000. Net profit for the year is ₹ 45,000.

You are required to prepare the Capital Account to find out the required item.

Solution

Dr. **Capital Account** *Cr.*

	₹		₹
To Drawings in Cash (Bal. fig.)	17,000	By Balance b/d (Opening)	1,25,000
To Balance c/d	1,53,000	By Net Profit for the year	45,000
	1,70,000		1,70,000

(ii) When opening and closing balance of capital and drawings made by the proprietor during the year is given :

Illustration 11

The extracts of the Balance Sheet of Mr. Hasan reveals that the opening balance of capital in the business is ₹ 1,50,000 and closing balance of capital is ₹ 1,75,000. During the year he has withdrawn ₹ 5,000 from the business for his personal use.

You are required to prepare Capital A/c to find out required item.

Solution

Dr. **Capital Account** *Cr.*

	₹		₹
To Drawings in Cash	5,000	By Balance b/d (Opening)	1,50,000
To Balance c/d (Closing)	1,75,000	By Net Profit for the year (Bal. fig.)	30,000
	1,80,000		1,80,000

7. INCREASE IN SHARE CAPITAL

Increase in share capital means issue of new share capital, whether preference or equity. Issue of shares is a source of funds as it constitutes in flow of funds. Even the calls received from partly paid shares constitutes an inflow of funds. It should also be remembered that it is the net proceeds from the issue of share capital which amounts to a source of funds and hence in case shares are issued at premium, even the amount of premium collected shall become a source of funds. The same is true, when shares are issued at discount, it will not be the nominal value of shares but the actual realisation after

deducting discount that shall amount to inflow of funds. But sometimes shares are issued otherwise than in cash, the following rules must be followed :

(i) Issue of shares or making partly paid shares as fully paid out of accumulated profits in the form of bonus shares is not a source of funds.

(ii) Issue of shares for considerations other than current assets such as against purchase of land, machines, etc. does not amount to inflow of funds.

(iii) Conversion of debentures or loans into shares also does not amount to inflow of funds.

In all the three cases mentioned above, both the accounts involved are non-current and do not involve any current assets or funds.

Illustration 12

The Balance Sheet of Sonia Ltd. shows that the Opening Balance of Share Capital is ₹ 5,00,000 and Closing Balance of the Share Capital is ₹ 5,50,000. You are required to prepare the Share Capital A/c.

Solution

Share Capital Account

Dr. Cr.

	₹		₹
To Balance c/d (Closing).	5,50,000	By Balance b/d (Opening)	5,00,000
		By Cash Issue of Share Capital (Bal. fig.)	50,000
	5,50,000		5,50,000

Illustration 13

Extracts of the Balance Sheet :

	31.3.2017	31.3.3018
	₹	₹
Equity Share Capital	2,00,000	3,00,000

Additional Information : Equity shares were issued during the year against the purchase of machinery and stock for ₹ 30,000 and ₹ 20,000 respectively.

Prepare necessary account to find out sources.

Solution

Equity Share Capital Account

Dr. Cr.

	₹		₹
To Balance c/d	3,00,000	By Balance b/d	2,00,000
		By Machinery	30,000
		By Stock (Source of Funds)	20,000
		By Cash (Issue for Cash) (Bal. Fig.)	50,000
	3,00,000		3,00,000

Treatment

1. Issue of share capital against machinery is neither a source of funds nor application of funds because Machinery A/c and Share Capital A/c both are of non-current nature.

2. Issue of shares against stock is a source of funds and it will be shown in sources side of Funds Flow Statement.

8. REDEMPTION OF PREFERENCE SHARES

The company can redeem only redeemable pref. shares as per terms and conditions specified at the time of issue of such shares. Pref. shares can be redeemed in the following manner :

(i) At Premium : When Pref. Shares are redeemed at Premium, in such case amount of premium paid along with the face value of the shares will be a charge and Loss Statement. The amount paid to Pref. Shareholders (including premium) treated as an application of funds.

(ii) At Discount : When Pref. Shares are redeemed at discount, such discount on redemption will be added to Profit and Loss Statement. The actual amount Preference Shareholders (excluding discount) will be shown as application. It remembered that if Pref. Shares are redeemed by conversion, in such case no amount be shown in the Funds Flow Statement because it will not involve outflow of funds.

Illustration 14

Extracts of the Balance Sheets :

	31.3.2017 ₹	31.3.2016 ₹
8% Redeemable Pref. Share Capital	2,00,000	1,00,000

Additional Information : 8% Redeemable Pref. Share Capital were redeemed at premium.

You are required to prepare necessary Account to show application of funds.

Solution

Dr. **Redeemable Pref. Share Capital Account**

	₹		₹
To Bank (Redeemed) (Application of Funds)	1,05,000	By Balance b/d	2,00,000
To Balance c/d	1,00,000	By Statement of Adjusted P/L (Premium)	5,000
	2,05,000		2,05,000

Statement of Adjusted Profit & Loss

Particular	₹
Premium on Redemption of Pref. Share Capital	5,000
Funds from Operation	5,000

Fund Flow Statement

Sources	₹	*Application*	₹
		Redemption of Pref. Share Capital	1,05,000

Illustration 15

Extracts of the Balance Sheet :

	31.3.2017 ₹	31.3.2016 ₹
9% Redeemable Pref. Share Capital	2,00,000	1,00,000

Additional Information : 9% Redeemable Pref. Shares were redeemed at 5% discount

You are required to prepare 9% Redeemable Pref. Share Capital A/c.

Solution

Dr. **9% Redeemable Pref. Share Capital Account**

	₹		₹
To Statement of Adjusted P/L (Discount)	5,000	By Balance b/d	2,00,000
To Bank (Redeemed) (Application)	95,000		

To Balance c/d	1,00,000		
	2,00,000		2,00,000

9. REDEMPTION OF DEBENTURES

Debentures of a company can be redeemed at Par, at Premium and at Discount. Generally, redemption is made at Par or at Premium. The amount of premium is charged from Statement of Profit and Loss. If Debentures are redeemed at discount, the amount of discount will be deducted to statement of adjusted P/L. Actual amount paid will be shown as an application in the Funds Flow Statement.

When debentures are redeemed by conversion, in such case, there will be no flow of funds. When debentures are redeemed by purchase of own debentures from market at lower rate, in such case, the amount of profit on redemption shall be added to statement of adjusted P/L.

Illustration 16

Extracted of the Balance Sheet :

	31.3.2017	31.3.2018
	₹	₹
6% Debentures	2,00,000	1,00,000
Profit on Redemption of Debentures	—	5,000

Find out the amount of redemption (application) for the purpose of Funds Flow Statement.

Solution

6% Debentures Account

Dr. *Cr.*

	₹		₹
To Statement of Adjusted P/L (Profit on Redemption)	5,000	By Balance b/d	2,00,000
To Cash/Bank A/c (Red.) (Application)	95,000		
To Balance c/d	1,00,000		
	2,00,000		2,00,000

10. PURCHASE OF BUSINESS

Sometimes continuing business is purchased by a company with its fixed assets and current assets. In such case purchase consideration is paid by way of issue of shares and debentures. The following procedure should be adopted while preparing Funds Flow Statement :

(1) Find the amount of Goodwill or Capital Reserve as follows :

Goodwill = Purchase Consideration – Net Assets

Capital Reserve = Net Assets – Purchase Consideration

Here,

Net assets means total assets acquired *less* liabilities taken over.

(2) Shares and Debentures issued against current assets is treated as sources of funds.

(3) Shares and Debentures issued against fixed assets involve no flow of funds, hence it is not shown in Funds Flow Statement.

11. STOCK DIVIDEND AND CASH DIVIDEND

Stock Dividend : Dividend is paid to the shareholders in kind. In case of this form, the company issues its own shares to the existing shareholders in lieu of or in addition to

cash dividend. Payment of stock dividend is popularly termed as Issue of Bonus Sh in India. Stock dividend does not involve any cash outflow from the company.

Cash Dividend : The usual practice is to pay dividend in cash. This results in out of funds for a company. Cash dividend is paid only when company has adequate resources. Its treatment is made as follows :

(1) Will be added to Statement of Profit and Loss.

(2) Application Side of F. F. Statement.

12. ISSUE OF BONUS SHARES

Bonus shares means shares allotted by capitalisation of the reserves or surplus corporate enterprise. Thus, shares issued as bonus, free of charge are termed as bo shares. The shareholders get extra shares without making any payment for them. I of bonus shares results in conversion of the company's reserves and surplus into sh capital. Such shares are issued to the equity shareholders in proportion to their holdi of the Equity Share Capital of the company.

Issue of bonus shares does not affect the total capital structure of company. Thus, there will be no flow of funds, if bonus shares are issued.

13. UNDER OR OVER-VALUATION OF STOCK

Valuation of stock affects net profit of a concern. Sometimes it is valued below cost is known as under-valuation of stock. The following points should be taken into consider tion while preparing Funds Flow Statement :

(i) Under-valuation of Closing Stock : When closing stock is valued at below co it results in decreasing the profits, which does not involve any outflow of funds. It i therefore, added to statement of added P/L (Difference only).

(ii) Over-valuation of Closing Stock : When closing stock is valued at above co it has result in increasing the profit which does not involve any outflow of funds. It i therefore, deducted from statement of adjusted Profit & Loss (Difference only).

14. FICTITIOUS ASSETS

If there are certain fictitious assets shown in the Balance Sheet as discount on issu of shares and debentures, preliminary expenses, underwriting commission, etc. then th balance to be written off to the Statement of adjusted Profit & Loss can be calculated b preparing the Fictitious Assets A/c. It will be prepared as follows :

Dr. **Fictitious Asset Account** C

	₹		₹
To Balance b/d	—	By Statement of adjusted Profit and Loss (Bal. fig.)	—
		By Balance c/d	—
	—		—

15. UNDISTRIBUTED RESERVE AND FUND

If there are any undistributed profits in the form of reserves and funds, the difference of these reserves and funds will be added or substracted from Statement of Adjusted Profit and Loss. If it increases, it will added if decreases will be substracted.

The Account is prepared as under :

Reserve Account

Dr.	₹		Cr. ₹
To Statement of adjusted Profit and Loss (Reserve utilised)	—	By Balance b/d	—
To Balance c/d	—	By Statement of Adjusted Profit and Loss (New Reserve)	—
	—		—

16. INCREASE OR DECREASE IN FIXED ASSETS

While preparing Funds Flow Statement, increase in non-current asset is treated as Purchase of Asset and decrease in non-current asset is treated either as Sale of Asset or Depreciation on it. Whether, decrease in non-current assets should be treated as sale or depreciation, it depends upon the nature of assets and the amount decreased thereon. If the amount decreased is more than 10% of the cost of assets (with reference to furniture), if it is more than 10% and 25% of the cost of assets (with reference to Building and Plant and Machinery respectively) then it is better to consider it as sale of non-current assets and not as depreciation.

Sometimes, there are certain adjustments or transactions of sale and purchase of fixed assets which are given after two Balance Sheets. Under such circumstances, it is desirable to prepare accounts relating to such fixed assets and provision for depreciation account. The working of these accounts will be as follows :

(i) To find out the cost of fixed asset purchased, when there is no information regarding depreciation :

Illustration 17

From the extracts of the Balance Sheets of Mr. X :

Opening balance of Land and Building ₹ 40,000, Closing balance of Land and Building ₹ 60,000. And there is no information regarding depreciation. Prepare Land and Building A/c.

Solution

Land and Building Account

Dr.	₹		Cr. ₹
To Balance b/d (Opening)	40,000	By Balance c/d	60,000
To Cash Purchase (Bal. fig.)	20,000		
	60,000		60,000

(ii) To find out the cost of fixed assets purchased, when the amount of depreciation is given :

Illustration 18

From the extracts of the Balance Sheet of Mr. X :

Opening balance of Land and Building ₹ 50,000

Closing balance of Land and Building ₹ 80,000

Further, depreciation for the year amounted to ₹ 10,000.

Prepare Land and Building A/c.

Solution

Dr. **Land and Building Account**

	₹		
To Balance b/d (Opening)	50,000	By Statement of Adjusted Profit and Loss (Depreciation)	
To Cash Purchase (Bal. fig.)	40,000	By Balance c/d	
	90,000		

(iii) To find out the amount of depreciation, when information regar additional purchase of asset is given :

Illustration 19

From the extracts of the Balance Sheet of Mr. X :

Opening balance of Land and Building ₹ 30,

Closing balance of Land and Building ₹ 40,

Further, purchase of Land and Building during the current year is ₹ 15,000. Prep Land and Building A/c.

Solution

Dr. **Land and Building Account**

	₹		₹
To Balance b/d (Opening)	30,000	By Statement of Adjusted Profit and Loss (Depreciation) (Bal. fig.)	5,0
To Cash (Purchase)	15,000	By Balance c/d (Closing)	40,0
	45,000		45,0

(iv) To find out sale value of fixed assets, when there is no informati regarding depreciation :

Illustration 20

From the extracts of the Balance Sheets of Mr. X :

Opening balance of Land and Building ₹ 40,00

Closing balance of Land and Building ₹ 25,00

No further information regarding depreciation is given. Prepare Land and Buildin Account.

Solution

Dr. **Land and Building Account** C

	₹		₹
To Balance b/d (Opening)	40,000	By Cash (Sales)* A/c (Bal. fig.)	15,000
		By Balance c/d (Closing)	25,000
	40,000		40,000

* If the difference of opening and closing balance of land and building *i.e.* ₹ 15,000 is considered as depreciation, in such case, the ultimate effect on Funds Flow Statement will remain the same, because Cash Sales ₹ 15,000 recorded above is a source of funds and if it considered as depreciation then it will be added to Statement of Adjustment P/L and to that extent funds from operation will increase which will be shown in the sources side of Funds Flow Statement.

(v) When opening balance and closing balance of fixed asset and cost of asset sold and when cost of purchased asset is to be calculated.

Illustration 21

The Balance of Fixed Assets of a company as cost at the end of 2017 and 2018 were ₹ 5,00,000 and ₹ 6,00,000 respectively. During the year 2018 a Land & Building costing ₹ 20,000 was sold. Find out the purchase cost of the assets.

Solution

Land and Building Account

Dr.	₹		Cr. ₹
To Balance b/d (Opening)	5,00,000	By Cash A/c (Sold)	20,000
To Cash A/c (Purchase) (Bal. fig.)	1,20,000	By Balance c/d (Closing)	6,00,000
	6,20,000		6,20,000

(vi) To find out the cost of fixed asset purchased, when opening balance of asset, closing balance of asset, depreciation for the year and profit or loss on assets sold is given :

Illustration 22

From the extracts of Balance Sheet, Opening and Closing balances of Land and Building are ₹ 2,50,000 and ₹ 3,00,000 respectively. Depreciation during the year excluding on Assets Sold is ₹ 10,000. During the year Land and Building costing ₹ 20,000 (accumulated depreciation ₹ 5,000) is sold for ₹ 12,000.

Find out the Cost of Purchase of Land and Building.

Solution

Land and Building Account

Dr.	₹		Cr. ₹
To Balance b/d	2,50,000	By Statement of adjusted Profit and Loss (Dep.) (10,000 + 5,000)	15,000
To Cash Purchase (Bal. fig.)	80,000	By Cash Sales	12,000
		By Statement of adjusted Profit and Loss (Loss on Sales) (₹ 20,000 – 5,000 – 12,000)	3,000
		By Balance c/d	3,00,000
	3,30,000		3,30,000

(vii) To find out the cost of assets purchased, when opening and closing balances of asset are given after charging depreciation and opening and closing balances of provision for depreciation are given in adjustment :

Illustration 23

The Balance Sheet of Mr. X of two periods show the following :

Balance Sheet

(as on.....)

	31.3.2017	31.3.2018		31.3.2017	31.3.2018
	₹	₹		₹	₹
All Liabilities	40,000	43,000	Plant & Machinery (After Depreciation)	40,000	43,000
	40,000	43,000		40,000	43,000

Provision for depreciation on Plant and Machinery stood ₹ 13,500 on 31st March, 2018 and ₹ 18,000 on 31st March, 2018.

Find out the Cost of Assets Purchased.

Solution

Dr. **Provision for Depreciation on Plant and Machinery**

	₹		
To Balance c/d (Closing)	18,000	By Balance b/d (Opening)	
		By Statement of Adjusted P/L (for Dep.)	
	18,000		

Dr. **Plant and Machinery Account**

	₹		
To Balance b/d (₹ 40,000 + 13,500)	53,500	By Balance c/d (₹ 43,000 + 18,000 for Dep.)	
To Cash Purchase (Bal. figure)	7,500		
	61,000		

Note : In above example, the cost of opening balance and closing balance is not known, i.e., balances are shown after depreciation, hence to find out the cost of opening and closing balance of asset opening balance of provision has been added back to opening balance of asset and closing balance of provision has been added back to closing balance of asset.

(viii) To find out the cost of asset purchased, when opening and closing balance of asset (before depreciation), opening and closing balance of provision for depreciation and profit or loss on sale of asset is given :

Illustration 24

A machine costing ₹ 10,000 (accumulated depreciation ₹ 6,000) is sold for ₹ 2,500. The opening and closing balances of machinery are ₹ 2,45,000 and ₹ 2,65,000 respectively. Provision for depreciation (*i.e.* accumulated dep.) had ₹ 65,000 as opening balance and ₹ 85,000 as closing balance which are shown in the liability side of Balance Sheet. Find out the cost of machine purchased.

Solution

Dr. **Provision for Depreciation on Machinery Account**

	₹		₹
To Machinery A/c (Dep. on Machinery sold)	6,000	By Balance b/d	65,000
To Balance c/d	85,000	By Statement of Adjusted P/L (Bal. fig.)	26,000
	91,000		91,000

Dr. **Machinery Account**

	₹		₹
To Balance b/d (Gross)	2,45,000	By Provision for Depreciation (on Machinery sold)	6,000
To Cash (Purchase of Machinery) (Bal. fig.)	30,000	By Cash (sold)	2,500
		By Statement of Adjusted P/L (Loss on sold)	1,500
		By Balance c/d (Gross)	2,65,000
	2,75,000		2,75,000

(ix) To find out the cost of assets purchased when the opening and closing balance of asset (after depreciation), opening and closing balance of provision for depreciation (in adjustment), depreciation for the year and gain or loss on asset sold is given :

Illustration 25

As per Balance Sheet of Mr. X, the Opening and Closing Balance (after depreciation) of Plant and Machinery are ₹ 4,26,000 and ₹ 4,13,000 respectively. Provision for Depreciation on Plant and Machinery amounts to ₹ 4,24,000 as Opening Balance and ₹ 4,11,000 as Closing Balance. Depreciation for the year amounted to ₹ 66,000.

A machine was sold for ₹ 20,000 at the time of sale the net book value of the machine was ₹ 30,000 (Cost ₹ 70,000 and Accumulated Depreciation ₹ 40,000).

Find out the Cost of Assets Purchased.

Solution

Provision for Depreciation on Plant & Machinery Account

Dr.	₹		Cr. ₹
To Plant & Machinery (Dep. on assets sold)	40,000	By Balance b/d	4,24,000
To Statement of Adjusted P/L (Excess Dep. Charged) (Bal. fig.)	39,000	By Statement of Adjusted P/L (Dep. for the year)	66,000
To Balance c/d	4,11,000		
	4,90,000		4,90,000

Plant and Machinery Account

Dr.	₹		Cr. ₹
To Balance b/d (₹ 4,26,000 + 4,24,000)	8,50,000	By Provision for Depreciation on Assets sold	40,000
To Cash Purchase of Plant and Machinery (Bal. fig.)	44,000	By Cash (Asset sold)	20,000
		By Statement of Adjusted P/L (Loss) (₹ 70,000 – 40,000 – 20,000)	10,000
		By Balance c/d (₹ 4,13,000 + 4,11,000)	8,24,000
	8,94,000		8,94,000

17. GOODWILL

If the amount of Goodwill increases during current year, the difference is treated as Purchase of Goodwill. If this purchase has been made on cash basis, it is shown as Application of Funds in Fund Flow Statement. However, if goodwill has been purchased by issuing shares or debentures, it will be ignored because there will be no Flow of Funds due to such transaction. On the other hand, if the amount of goodwill decreases during current year, it will be treated as Goodwill Written off and will be added to profit in Statement of Adjusted Profit and Loss.

18. IS DEPRECIATION A SOURCE OF FUNDS ?

A big controversy has arisen during recent year whether provision for depreciation should be considered as a source of funds or not ? Here both the aspects of this concept are analysed.