

Fund Flow Statement

Changes in Financial Position :

- (a) Fund Flow Statement
- (b) Cash Flow Statement

FUND FLOW STATEMENT

Meaning of Fund

The term **“Fund”** refers to Cash, to Cash Equivalents or to Working Capital and all financial resources which are used in business. These total resources of a concern are in the form of men, materials, money, plant and equipments and others.

In a broader meaning the word **“Fund”** refers to Working Capital. The Working Capital indicates the difference between current assets and current liabilities. The term working capital may be:

- (a) Gross Working Capital and
- (b) Net Working Capital.

Gross Working Capital” represents total of all Current Assets.

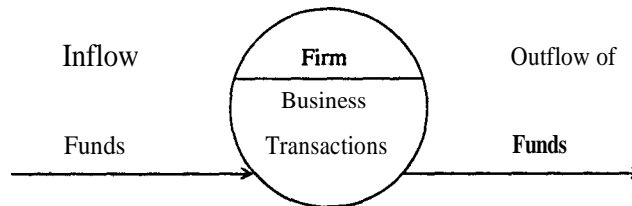
“Net Working Capital” refers to excess of **Current Assets** *over* Current Liabilities. In a narrow sense the word **“Fund”** denotes cash or cash equivalents.

Meaning of Flow of Funds

The term “Flow of Funds” refers to changes or movement of funds or changes in working capital in the normal course of business transactions. The changes in working capital may be in the form of inflow of working capital or outflow of working capital. In other words, any increase or decrease in working capital when the transactions takes place is called as “Flow of Funds.” If the components of working capital results in increase of the fund, it is known as Inflow of Fund or Sources of Fund. Similarly, if the components of working capital effects in decreasing the financial position it is treated as Outflow of Fund. For example, if the fund raised by way of issue of shares will be taken as a source of fund or inflow of fund. This transaction results in increase of the financial position. Like this, the fund used for the purchase of machinery will be taken as application or use of fund or outflow of fund. Because it stands to educe the fund position.

The following chart shows the movement of funds :

Movement of Funds



Statement of Changes in Financial Position

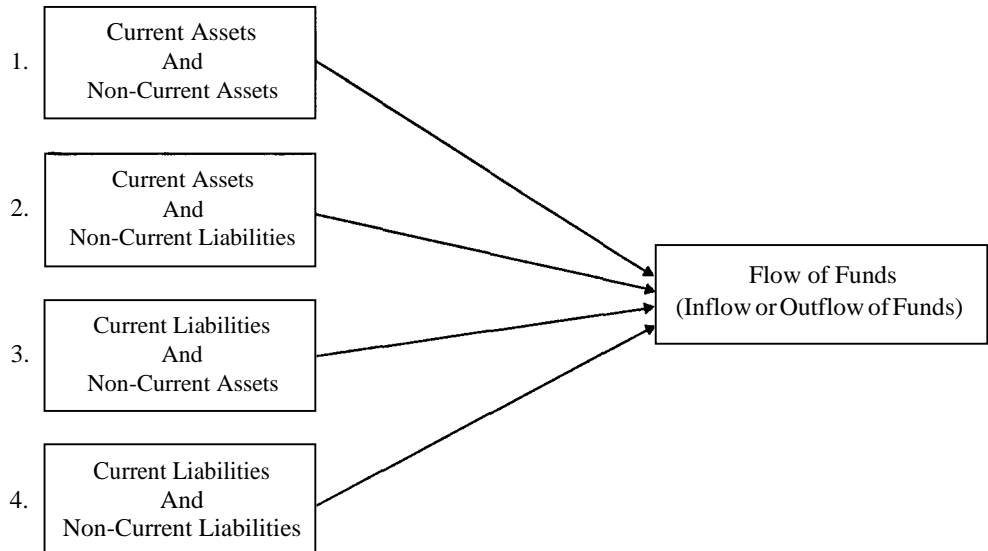
It is a **statement** prepared on the basis of all financial resources, i.e., assets, liabilities and capital. This statement is attempt to **measure** changes in both current and non-current accounts. The changes in financial position may occur in deal with following transactions:

- (a) Involves between current assets and non-current assets (fixed assets or permanent assets).
- (b) Involves between current liabilities and non-current assets.
- (c) Involves between current assets and non-current liabilities (long-term liabilities and capital).
- (d) Involves between current liabilities and non-current liabilities.

The following chart explains the flow of funds when transaction involves between current and non-current accounts:

Flow of Funds Chart

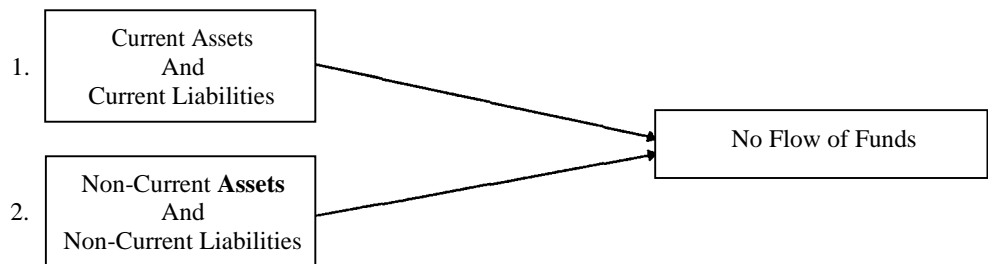
Transaction Involves between



When the transaction involves between non-current account and between current account it is not movement of funds. The following chart shows the no flow of funds :

No Flow of Funds Chart

Transaction Involves between



Examples of Flow of Funds and No Flow of Funds

The following are the few examples of flow of funds and no flow of funds:

Components of Flow of Funds

In order to analyze the sources and application of funds, it is essential to know the meaning and components of flow of funds given below:

(1) Current Assets

(2) Non-Current Assets (Fixed or Permanent Assets)

(3) Current Liabilities

(4) Non-Current Liabilities (Capital & Long-Term Liabilities)

(S) Provision for Tax

(6) Proposed Dividend

(1) **Current Assets:** The term “Current Assets” refer to the assets of a business of a transitory nature which are intended for resale or conversion into different form during the course of business operations. For example, raw materials are purchased and the amount unused at the end of the trading period forms part of the current as stock on hand. Materials in process at the end of the trading period and the labour incurred in processing them also form part of current assets.

(2) **Non-Current Assets (Permanent Assets):** Non-Current Assets also refer to as Permanent Assets or Fixed Assets. This class of asset includes those of tangible and intangible nature having a specific value and which are not consumed during the course of business and trade but provide the means for producing saleable goods or providing services. Land and Building, Plant and Machinery, Goodwill and Patents etc. are the few examples of Non-Current Assets.

(3) **Current Liabilities:** The term Current Liabilities refer to amount owing by the business which are currently due for payment. They consist of amount owing to creditors, bank loans due for repayment, proposed dividend and proposed tax for payment and expenses accrued due.

(4) **Non-Current Liabilities:** The term Non-Current Liabilities refer to Capital and Long-Term Debts. It is also called as Permanent Liabilities. Any amount owing by the business which are payable over a longer period time, i.e., after a year are referred as Non-Current Liabilities. Debenture, long-term loans and loans on mortgage etc., are the few examples of non-current liabilities.

(5) **Provision for Taxation:** Provision for taxation may be treated as a current liability or an appropriation of profit. When it is made during the year it is not used for adjusting the net profit, it is advisable to treat the same as current liability. Any amount of tax paid during the year is to be treated as application of funds or non-current liability. Because it is used for adjusting the net profit made during the year.

(6) **Proposed Dividend:** Like provision for taxation, it is also treated as a current liability and non-current liability, when dividend may be considered as being declared. And thus, it will not be used for adjusting the net profit made during the year. If it is treated as an appropriation, i.e., an non-current liability when the dividend paid during the year.

(7) **Provisions Against Current Assets and Current Liabilities:** Provision for bad and doubtful debts, provision for loss on inventories, provision for discount on creditors and provision made against investment etc. are made during the year, they may be treated separately as current assets or current liabilities or reduce the same from the respective gross value of the assets or liabilities.

The list of Current Accounts and Non-Current Accounts are given below :

Current Accounts

<i>Current Liabilities</i>	<i>Current Assets</i>
(1) Bills Payable	(1) Cash in Hand
(2) Sundry Creditors	(2) Cash at Bank
(3) Outstanding Expenses	(3) Bills Receivable
(4) Dividends Payable	(4) Sundry Debtors
(5) Bank Overdraft	(5) Short-Term Investments
(6) Short-Term Loans	(6) Marketable Securities
(7) Provisions against Current Assets	(7) Stock of Raw Materials, Work in Progress & Finished Goods
(8) Provision for Taxation	(8) Prepaid Expenses
(9) Proposed Dividend (May be Current or Non-Current Liabilities)	(9) Accrued Incomes

Non-Current Accounts

<i>Non-Current or Permanent Liabilities</i>	<i>Non-Current or Permanent Assets</i>
(1) Equity Share Capital	(1) Good will
(2) Preference Share Capital	(2) Land
(3) Debentures	(3) Building
(4) Long-Term Loans	(4) Plant and Machinery
(5) Share Premium	(5) Furniture and Fittings
(6) Share forfeited	(6) Trade Marks
(7) Profit and Loss Account	(7) Patent Rights
(8) Capital Reserve	(8) Long-Term Investments
(9) Capital Redemption Reserve	(9) Discount on Issue of Shares and Debentures
	(10) Preliminary Expenses
	(11) Other Deferred Expenses

Fund Flow Statement

It is a statement summarizing the significant financial changes in items of financial position which have occurred between the two different balance sheet dates. This statement is prepared on the basis of “Working Capital” concept of funds. Fund flow Statement helps to measure the different sources of funds and application of funds from transactions involved during the course of business.

The fund flow statement also termed as Statement of Sources and Application of Fund, Where Got and Where Gone Out Statement, Inflow of Fund or Outflow of Fund Statement.

Preparation of Fund Flow Statement

Fund flow analysis involves the following important three statements such as :

I. Statement of Changes in Working Capital

II. Fund From Operations

III. Fund Flow Statement.

I STATEMENT OF CHANGES IN WORKING CAPITAL

It is also termed as Statement of Changes in Working Capital. Before preparation of fund flow statement, it is essential to prepare first the schedule of changes in working capital and fund from operations. Statement of changes in working capital is prepared on the basis of items in current assets and current liabilities of between two balance sheets. This statement helps to measure the movement or changes of working capital during a particular period. The term working capital refers to excess of current assets over

Current liabilities. The working capital may be "Increase in working capital" or "Decrease in working capital." An increase in the amount of an item of current assets in the current year as compared to the previous year represents to an increase in working capital. Similarly, a decrease in the amount of an item of current assets in the current year as compared to the previous year would represent decrease in working capital. In the same way over all changes in working capital is calculated and presented in the schedule of changes in working capital. The final result of Net Decrease in Working Capital refers to Source of Funds or Inflow of Funds. Like this, Net Increase in Working Capital represent Application of Fund or Uses of Funds

Principle or Rules for Preparation of Working Capital Statement

The following rules may be kept in mind while preparing working capital statement:

- | | | | |
|-----|-------------------------------|-------|---------------------------|
| (1) | Increase in Current Asset | ———— | Increases Working Capital |
| (2) | Decrease in Current Asset | ———— | Decreases Working Capital |
| (3) | Increase in Current Liability | ————+ | Decreases Working Capital |
| (4) | Decrease in Current Liability | ————+ | Increases Working Capital |

Specimen Form of Schedule of Changes in Working Capital :

The following is a specimen form may be used for preparation of schedule of changes in working capital.

Schedule of Changes in Working Capital

Statement of Changes in Working Capital

<i>Particulars</i>	<i>Previous Year Rs.</i>	<i>Current Year Rs.</i>	<i>Effect on Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
Current Assets :				
Cash in Hand				
Cash at Bank				
Sundry Debtors				
Bills Receivable				
Short-Term Investments				
Stock				
Prepaid Expenses	*	***		
Outstanding Incomes				
Total Current Assets (A)	***	***		
Current Liabilities:				
Sundry Creditors				
Bills Payable				
Bank Overdraft				
Outstanding Expenses				
Short-Term Loan				
Total Current Liabilities (B)				
Working Capital (A-B)		***		
Net Increase /Decrease				
In Working Capital				
TOTAL	***	***	***	***

Problems:1

Illustration: 3

From the following Balance Sheet of Gupta Ltd., prepare Schedule of Changes in Working Capital:

Balance Sheet					
<i>Liabilities</i>	2002	2003	<i>Assets</i>	2002	2003
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Creditors	55,000	83,000	Cash in Hand	15,000	10,000
Bills Payable	20,000	16,000	Cash at Bank	10,000	8,000
Share Capital	1,00,000	1,50,000	Debtors	1,60,000	2,00,000
General Reserve	7,000	8,000	Stock	77,000	1,09,000
Debenture	1,00,000	1,00,000	Bills Receivable	20,000	30,000
	2,82,000	3,57,000		2,82,000	3,57,000

Sol:

Schedule of Changes in Working Capital

<i>Particulars</i>	2002 <i>Rs.</i>	2003 <i>Rs.</i>	<i>Changes in Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
Current Assets :				
Cash in Hand	15,000	10,000	—	5,000
Cash at Bank	10,000	8,000	—	2,000
Debtors	1,60,000	2,00,000	40,000	—
Stock	77,000	1,09,000	32,000	—
Bills Receivable	20,000	30,000	10,000	—
Total (A)	2,82,000	3,57,000		
Current Liabilities :				
Creditors	55,000	83,000	—	28,000
Bills Payable	20,000	16,000	4,000	—
Total (B)	75,000	99,000		
Working Capital (A — B)	2,07,000	2,58,000		
Net Increase in Working Capital	51,000	—	—	51,000
	2,58,000	2,58,000	86,000	86,000

II FUND FROM OPERATIONS

Fund From Operation is to be determined on the basis of Profit and Loss Account. The operating profit revealed by Profit and Loss Account represents the excess of sales revenue over cost of goods sold. For example, depreciation charges on fixed assets, write up of fixed assets or fictitious assets, any appropriations etc. do not cause **actual flow of funds**.

The balancing amount of adjusted profit and loss account is described as fund from operations.

Calculation of Fund From Operations

Fund from operations is calculated with the help of following adjustments. The adjustments may be shown in the specimen proforma of profit and loss account as given below :

Particulars	Amount Rs.	Amount Rs.
Net Profit or Retained Earnings (Closing balance of P & L A/c as given in the Balance Sheet)		***
Add : Non-Fund and Non-Operating items which have already been debited to P & L A/c :		
(1) Depreciation and Depletion	*	
(2) Amortization of Fictions and Intangible Assets etc.		
(a) Good will, Patents written off		
(b) Discount on Issue of shares written		
(c) Preliminary Expenses written off		
(d) Premium on redemption of debenture		
(3) Appropriation of Retained Earnings :		
Profit transfer to General Reserve Profit		
transfer to Sinking Fund	• * •	
Profit transfer to Contingency		
Provision for Taxation (not taken as current liability)		
Provision for Proposed Dividend		
(not taken as current liability) Loss		
on Sale of Fixed Assets		
Loss on Sale of Plant and Machinery Loss		
on Sales of Land and Building Loss on		
Sale of Furniture and Fixtures		
Total (A)		
Less : Non-Fund and Non-Operating items which have already been credited to P & L A/c :		
(1) Profit on sale of Fixed Assets Profit	***	***
on sale of Land & Building		
Profit on sale of Plant & Machinery Profit		
on sale of Furniture & Fixtures		
(2) Appreciation or Revaluation of fixed assets		
(3) Dividend received on investment		
(4) Profit on redemption of Shares and debentures		
(5) Excess provisions written back		
(6) Any other non-trading items already -j credited to P & L A/c I	* * *	
(7) Net Profit or Retained Earnings (Opening balance of P & L A/c)I		
Total (B)	* * *	
Fund From Operations (Total A — B)		

Alternative Specimen Format

The following is the specimen of adjusted profit and loss account to calculate fund from operations :

Adjusted Profit and Loss Account

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Depreciation on Fixed Assets		By Opening Balance of P & L A/c	
To Loss on Sale of Fixed Assets		By Profit on Sale of Fixed Assets	
To Loss on Sale Investments		By Excess provision written back	
To Goodwill written off		By Dividend received on investment	
To Discount on shares written off		By Revaluation of fixed assets	
To Transfer to reserve		By Fund From Operations	
To Preliminary expenses written off		(Balancing Figure)	
To Provision for Tax			
To Proposed Dividend			
To Closing Balance of P & L A/c			

Illustration: 1

From the following Profit and Loss Account, Calculation fund from operation:

Profit and Loss Account

	<i>Rs.</i>		<i>Rs.</i>
To Rent	6,000	By Gross Profit b/d	50,000
To Salaries	14,000	By Transfers to General Reserve	7,000
To Advertisement	3,000	By Preliminary Expenses	1,000
To Office Expenses	2,000	By Profit on Sale of Investment	2,000
To Depreciation on Plant	5,000		
To Good will written off	3,000		
To Loss on Sales of Plant	2,000		
To Provision for Tax	4,000		
To Interim Dividend	3,000		
To Net Profit	18,000		
	60,000		60,000

Solution:

Calculation of Fund from Operations

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Amount Rs.</i>
Net Profit or Retained Earnings (Closing Balance of P & L A/c)		18,000
Add : Non-Fund or Non-Trading items already debited to P & L A/c :		
Depreciation on Plant	5,000	
Goodwill written off	3,000	
Loss on Sale of Plant	2,000	
Provision for Tax	4,000	
Interim Dividend	3,000	

Fund Flow Statement

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Amount Rs.</i>
Preliminary Expenses	1,000	
Transfer to General Reserve	7,000	25,000
		43,000
<i>Less : Non-Fund or Non-Trading items already</i>		
<i>Credited to P & L A/c :</i>		
Profit on Sale of Investments	2,000	2,000
fund From Operations		41,000

Note: Provision for tax and Interim Dividend are not treated as current liability.

Alternatively:

Adjusted Profit and Loss Account

To Depreciation on Plant	5,000	By Profit on sale of Investment	2,000
To Goodwill Written off	3,000	By Fund From Operations	41,000
To Loss on Sale of Plant	2,000	(Balancing figure)	
To Provision for Tax	4,000		
To Interim Dividend	3,000		
To Preliminary Expenses	1000		
To Transfer General Reserve	7000		
To Net Profit (Closing Balance			
of P & L A/c) I	18,000		
	43,000		43,000



III .FUND FLOW STATEMENT

In the analysis and interpretation of financial statements fund flow statement is one of the important techniques. The statement of changes in working capital is prepared with the help of current assets and current liabilities. Similarly, fund from operation is prepared on the basis of profit and loss account to find out the exact movement of funds in different operations. After preparing schedule of changes in working capital and fund from operations, at the last stage a comprehensive fund flow statement can be prepared on the basis of component of non-current assets, non-current liabilities of balance sheet and relevant information. In other words, this statement is prepared with the help of the changes in non-current assets and non-current liabilities of balance sheet.

Components of Sources and Application of Funds

The following are the components of different sources and applications of funds:

Components of Sources of Funds

- (1) Fresh Issue of Equity Share Capital.
- (2) Fresh Issue of Preference Share Capital.
- (3) Issue of Debentures and Bonds.
- (4) Long-Term Loans raised from bank, financial institutions and public.
- (5) Long-Term Loans on Mortgage.
- (6) Sale of Fixed Assets.
- (7) Sale of Long-Term Investments.
- (8) Non-Trading Incomes.
- (9) Fund From Operations.
- (10) Net Decrease in Working Capital (as per schedule of changes in working capital).

Components of Applications of Funds

Generated funds from various sources may be utilized in the following ways for meeting the future productive programmes of the business:

- (1) Redemption of shares and debentures.
- (2) Repayment of loans raised from bank, financial institutions and public.
- (3) Purchase of Fixed Assets.
- (4) Purchase of Long-Term Investments.
- (5) Non-Trading Expendimre.
Payment of Tax;
Payment of Dividend.
- (6) Fund Lost in Operations.
- (7) Net Increase in Working Capital (as per schedule of changing in working capital).

Specimen Form of Fund Flow Statement

The following are the two usual formats for preparation of Sources and Application of Fund is presented below:

- (1) Statement Form.
- (2) Account Form.

(1) Statement Form

Fund Flow Statement

<i>Paniculars</i>	<i>Amount Rs.</i>	<i>Amount Rs.</i>
Sources of Funds : Fund From Operations Issue of Share Capital Issue of Debentures Long-Term Loans Sale of Fixed Assets Sale of Investments Non- Trading Incomes Decrease in Working Capital (as per schedule of changes in working capital) Total Sources (or) Total Inflows (A)	 * * *	 * * *
AppirationozUsesofFunds : Fund Lost in Operations Redemption of Shares Redemption of Debentures Purchase of Fixed Assets Repayment of Long-Term Investments Non-Trading Expenditure Payment of Tax Payment of dividend Increase in Working Capital (as per schedule of changes in working capital) Total Application or Total Outflows (B)	 * * *	 * * *
		* . *

(2) Account Form

Fund Flow Statement

Sources of Funds	Amount Rs.	Application of Funds	Amount Rs.
Fund From Operations Issue of Share Capital Issue of Debentures Long-Term Loans Sale of Fixed Assets Sale of Investments Non-Trading Incomes Decrease in Working Capital (As per schedule of changes in working capital)		Fund Lost in Operations Redemption of Shares Redemption of Debenture Purchase of Fixed Assets Repayment of Long-Term Loans Non-Trading Expenditure Payment of Tax Payment of Dividend Increase in Working Capital (as per schedule of changes in working capital)	
Total Inflow	* * *	Total Outflow	* * *

Illustration: 1

From the following Balance sheet of William & Co. Ltd., you are required to prepare a Schedule of Changes in Working Capital and Statement of Sources and Application of Funds.

Balance sheet

Liabilities	2002 Rs.	2003 Rs.	Assets	2002 Rs.	2003 Rs.
Capital	80,000	85,000	Cash in Hand	4,000	9,000
P & L A/c	14,500	24,500	Sundry Debtors	16,500	19,500
Sundry Creditors	9,000	5,000	Stock	9,000	7,000
Long-Term Loans	—	5,000	Machinery	24,000	34,000
			Building	50,000	50,000
	1,03,500	1,19,500		1,03,500	1,19,500

Sol:

Schedule of Changes in Working Capital

Particulars	2002 Rs.	2003 Rs.	Changes in Working Capital	
			Increase	Decrease
Current Assets :				
Cash at Bank	4,000	9,000	5,000	—
Sundry Debtors	16,500	19,500	3,000	—
Stock	9,000	7,000	—	2,000
Total (A)	29,500	35,500		
Current Liabilities :				
Sundry Creditors	9,000	5,000	4,000	—
Total (B)	9,000	5,000		
Working Capital (Total A — B)	20,500	30,500		
Net Increase in Working Capital	10,000	—	—	10,000
	30,500	30,500	12,000	12,000

Fund Flow Statement

<i>Sources of Fund</i>	<i>Rs.</i>	<i>Application of Fund</i>	<i>As.</i>
Issue of Capital (80000 — 85000)	5,000	Purchase of Machinery (24,000 — 34,000)	10,000
Long-Term Loans	5,000	Net Increase in	
Fund From Operations (14,500 — 24,500)	10,000	Working Capital	10,000
	20,000		20,000
