

# FUND FLOW vs CASH FLOW

## MEANING

This statement shows cash inflow and outflow during year. = Cash Basis

This statement shows fund inflow and outflow during year. ⇒ Cash + credit <sup>Imp</sup> <sub>Accrual Basis</sub>

## PURPOSE

Purpose of this is to analyse liquidity of the firm.

Purpose of Fund flow is to analyse working capital of firm

## COMPONENT

Three Sections : Cash flow from Operating, Financing and Investing

Two Sections : Application of Fund and Sources of Fund

## END RESULT

Calculates Net Cash Position of firm during the year.

Calculates the working capital position of the firm.

## REPORTING

Mandatory for companies to report as per GAAP

Not mandatory to report this statement, but can be made internally

### Particulars

	Amt.
Cash Flow from Operation ✓	XXX
Cash Flow from Financing ✓	XXX
Cash Flow from Investing ✓	XXX
Net inc./dec. in Cash & Cash equivalent	XXX
Cash at beginning of year	XXX
Cash at end of year	XXX

### FUND FLOW

### CASH FLOW

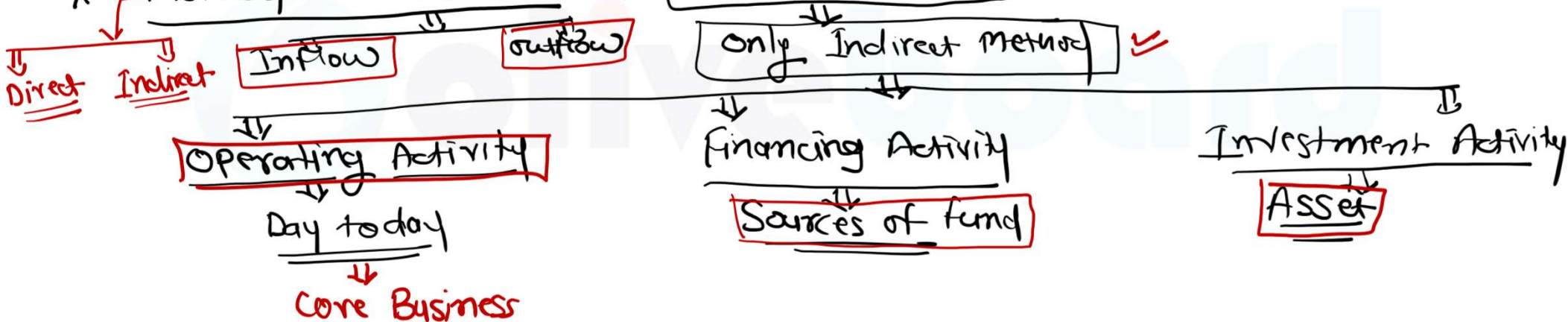
### Yr.1 Yr.2 Ch

Current Assets (A)	XX	XX	XX
Current Liabilities(B)	XX	XX	XX
Net Ch. In WC			XX
Sources of Fund			XX
Application of Fund			XX
Net Ch. In WC			XX

## TOPIC

# CASH FLOW AND FUNDS FLOW

- \* classification of Cash flow depends on nature of Business  $\Rightarrow$  IND AS 1, AS 1
- \* Cash flow = Part of Fin. Statement  $\Rightarrow$  IND AS 1, AS 1
- \* Cash flow = Cash Basis (only cash trans)  $\Rightarrow$  Tells us liquidity position
- \* Method of Cash flow  $\Rightarrow$  AS 3, IND AS 7



• Interest Paid = FA Manf.  
 • Share Buy = OA Bank  
 • Stock Trader Bank  
 • Share Buy = OA IA

## TOPIC

### Cash Flow from Operating Activities

- (a) cash receipts from the sale of goods and the rendering of services;
- (b) cash receipts from royalties, fees, commissions and other revenue;
- (c) cash payments to suppliers for goods and services;
- (d) cash payments to and on behalf of employees;
- (e) cash receipts and cash payments of an insurance entity ⇒ 

⇒ Premium  
⇒ Claim

⇒ Future  
⇒ Option  
⇒ MF  
⇒ Equity
- (f) cash payments or refunds of income taxes unless 

if you are stock trader
- (g) cash receipts and payments from contracts held for dealing or trading purposes.
- (h) An entity may hold securities and loans for dealing or trading purposes, cash advances and loans made by financial institutions are usually classified as operating activities  

Bank



## Cash Flow from Investing Activities

- cash payments to acquire property,
- cash receipts from sales of property
- cash payments to acquire equity or debt
- cash receipts from sales of equity or debt
- cash advances and loans made to other parties (other than advances and loans made by a FI)
- cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution):
- cash payments for futures contracts, forward contracts, option contracts and swap contracts
- cash receipts from futures contracts, forward contracts, option contracts and swap contracts

## Cash Flow from Financing Activities

Examples of cash flows arising from financing activities are:

- cash proceeds from issuing shares or other equity instruments;
- cash payments to owners to acquire or redeem the entity's shares;  $\Rightarrow$  Buy-Back
- cash proceeds from issuing debentures, loans, notes, bonds, mortgages
- cash repayments of amounts borrowed; and
- cash payments by a lessee for the reduction of the outstanding liability

➤ AS-3 and Ind AS-7 provide detailed guidelines for preparing this statement.

↓  
Indirect method

## TOPIC

### Difference between Cash Flow Statement and Funds Flow Statement

Cash Flow Statement	Funds Flow Statement
1. Integral part of financial statements and is mandatory	1. Not a mandatory requirement and not a part of financial statements
2. Cash flows from operating, financing and investing activities to be shown separately	2. No such segregation is required.
3. Determines the cash position at the end of the accounting period	3. Determines the changes in working capital through a specified period.
4. Uses the cash system of accounting	4. Uses the <del>cash</del> system of accounting <i>Accrual</i>
5. Helps in understanding the liquidity position of a business	5. Helps in assessing the long term financial strategy of a business

## TOPIC

## PREPARATION OF FUNDS FLOW STATEMENTS

<u>SOURCES OF FUNDS</u>	<u>USES OF FUNDS</u>
<p>1. LONG TERM SOURCES:</p> <p>a. <math>L \uparrow</math> Increase in equity</p> <p>b. <math>L \uparrow</math> Increase in Reserves</p> <p>c. Increase in long term borrowings</p> <p>d. <math>A \downarrow</math> <math>\Rightarrow</math> Decrease in Non-current assets</p> <p>Sub-total</p> <p>2. SHORT TERM SOURCES:</p> <p>a. <math>L \uparrow</math> <math>\Rightarrow</math> Increase in Short term borrowings</p> <p>b. <math>A \downarrow</math> <math>\Rightarrow</math> Decrease in current assets</p> <p>Sub-total</p>	<p>1. LONG TERM USES:</p> <p>a. Decrease in equity</p> <p>b. Decrease in Reserves</p> <p>c. Decrease in long term borrowings</p> <p>d. Increase in Non-current assets <math>\Rightarrow A \uparrow</math></p> <p>Sub-total</p> <p>2. SHORT TERM USES:</p> <p>a. Decrease in Short term borrowings <math>= L \downarrow</math></p> <p>b. Increase in current assets <math>\Rightarrow A \uparrow</math></p> <p>Sub-total</p>
TOTAL	TOTAL

## TOPIC

Most Imp.

In case of a financial enterprise (whose main business is lending and borrowing), interest paid, interest received and dividend received are classified as operating activities while dividend paid is a financing activity. In case of a non-financial enterprise, as per AS-3, it is considered more appropriate that payment of interest and dividends are classified as financing activities whereas receipt of interest and dividends are classified as investing activities.

	Financial Institute	Others
① Interest Paid =	<u>OA</u> Bank	FA =
② Interest Received =	<u>OA</u> Bank	IA =
③ Dividend Received	OA (MF) / FI IA (Bank) <u>Imp</u>	IA =
④ Dividend Pay =	FA =	FA =



# Unit 6 - Final Accounts of Banking Companies

$\Rightarrow$  Comp. Act 2013  $\Rightarrow$  Sch III  $\Rightarrow$   $\left[ \begin{array}{l} \Rightarrow I = \text{BIS} \\ \Rightarrow II = \text{PIL} \end{array} \right] \Rightarrow \underline{\text{Vehicle}}$   
 $\Rightarrow$  Bank. Reg. Act. 1949 =  $\left[ \begin{array}{l} \Rightarrow A = \text{BIS} \\ \Rightarrow B = \text{PIL} \end{array} \right]$   
 $\Rightarrow 1-5 = \text{Liability} \left. \vphantom{\begin{array}{l} \Rightarrow 1-5 = \text{Liability} \\ \Rightarrow 6-11 = \text{Asset} \end{array}} \right\} \Rightarrow \text{BLS}$   
 $\Rightarrow 6-11 = \text{Asset}$   
 $\Rightarrow 12 = \text{Contingent} = \text{Foot note AS-29}$   
 $\Rightarrow 13-14 = \text{Income}$   
 $\Rightarrow 15-16 = \text{Exp.} \left. \vphantom{\begin{array}{l} \Rightarrow 13-14 = \text{Income} \\ \Rightarrow 15-16 = \text{Exp.} \end{array}} \right\} \Rightarrow \text{PIL}$   
 $\Rightarrow 17 = \text{Provision}$   
 $\Rightarrow 18 = \text{Notes to Ac}$

## TOPIC

Sec. 29  $\Rightarrow$   $\begin{cases} \Rightarrow \text{Prepare FIS as Per law} \Rightarrow \text{Follow Formate} \\ \Rightarrow \text{Signature} = \begin{cases} \Rightarrow \text{Branch} = \text{Manager} \\ \Rightarrow \text{H.O.} = \text{min. 3 director} \end{cases} \end{cases}$

Sec. 30  $\Rightarrow$   $\frac{\text{Audit}}{\text{Auditor Appointment}} \Rightarrow \left[ \begin{array}{l} \text{Public Sector} = \text{BoD} \\ \text{Private Sector} = \text{Shareholder} \end{array} \right] \Rightarrow \boxed{\text{RBI Panel}} \checkmark$

Sec. 31  $\Rightarrow$  Submit 3 copy in 3 month = RBI

Sec. 32  $\Rightarrow$  Submit 3 copy in 3 month = ROC  $\Rightarrow$  mca.gov.in  $\rightarrow$  Eng E

Sec. 32  $\Rightarrow$  Publish in 2 newspapers -  $\begin{cases} \rightarrow \text{Eng.} \\ \rightarrow \text{Vernacular} \end{cases}$   
Rule: 15  $\Rightarrow$  in 6 months

\* "Bank follows Voucher Posting (Slip Posting)"  $\Rightarrow$  "Trans. directly recorded in Ledger of Customer."

## TOPIC

Special Trans. (Provision)  $\Rightarrow$   $\left[ \begin{array}{l} \Rightarrow \text{NPA (Bad debts)} \\ \Rightarrow \text{Tax} \\ \Rightarrow \text{Depreciation} \\ \Rightarrow \text{Rebate on Bill} \end{array} \right] \Rightarrow \text{Show} - \left[ \begin{array}{l} \Rightarrow \text{BLS} \rightarrow \text{Sch. 5} = \text{Other Liability} \\ \Rightarrow \text{PIL} \rightarrow \text{Sch. 17} \Rightarrow \text{Provision} \end{array} \right]$

\* If these Provisions are given inside Trial Balance  $\Rightarrow$  Show in BLS only  
Sch. 5

NPA Provision  $\Rightarrow$   $\left[ \begin{array}{l} \Rightarrow \text{Standard} \Rightarrow 0.25\% - 1\% \\ \Rightarrow \text{Sub-standard} \Rightarrow 15\% \\ \Rightarrow \text{Doubtful Asset} = \\ \Rightarrow \text{Loss Asset} = 100\% \end{array} \right] \Rightarrow \left[ \begin{array}{l} \Rightarrow \text{upto 1} = 25\% \checkmark \\ \Rightarrow 1-34 = 40\% \checkmark \\ \Rightarrow 34+ = 100\% \checkmark \end{array} \right]$

Sec. 5 of B.R. Act  $\Rightarrow$  Function of Bank =  $\left[ \begin{array}{l} \Rightarrow \text{Deposit} \\ \Rightarrow \text{Loan} \end{array} \right]$

Atk closing of Bank  $\Rightarrow$  31<sup>st</sup> March but for Internal Purpose (30 Sep)

Principal Book of Atk  $\Rightarrow$  General Ledger, PIL Atk