**UNIT-4**

**PROJECT FINANCING**

* **Financing:** Project cost estimation
* working capital requirements
* Sources of funds
* Capital budgeting
* Risk & uncertainty in project evaluation
* Preparation of projected financial statements viz.
* Projected balance sheet
* Projected income statement
* Projected funds & cash flow statements
* Preparation of detailed project report
* Project finance.

**PROJECT FINANCING**

Project cost estimation & working capital requirements, sources of funds, capital budgeting, Risk & uncertainty in project evaluation , preparation of projected financial statements viz. Projected balance sheet, projected income statement, projected funds & cash flow statements, Preparation of detailed project report, Project finance.

**Social Entrepreneurship:**

Social Sector Perspectives and Social Entrepreneurship, Social Entrepreneurship Opportunities and Successful Models, Social Innovations and Sustainability, Marketing Management for Social Ventures, Risk Management in Social Enterprises, Legal Framework for Social Ventures.

**Project Financing:**

Project finance is the funding (financing) of long-term infrastructure, industrial projects, and public services using a non-recourse or limited recourse financial structure. The debt and equity used to finance the project are paid back from the cash flow generated by the project.

Project financing is a loan structure that relies primarily on the project's cash flow for repayment, with the project's assets, rights, and interests held as secondary collateral. Project finance is especially attractive to the private sector because companies can fund major projects [off-balance sheet (OBS)](https://www.investopedia.com/terms/o/off-balance-sheet-obs.asp).

* Project finance involves the public funding of infrastructure and other long-term, capital-intensive projects.
* This often utilizes a non-recourse or limited recourse financial structure.
* A debtor with a non-recourse loan cannot be pursued for any additional payment beyond the seizure of the asset.
* Project debt is typically held in a sufficient minority subsidiary not consolidated on the balance sheet of the respective shareholders (i.e., it is an off-balance sheet item).

**There are three methods in Project Financing:**

* Cost Share Financing or Low interest loan financing.
* Debts Financing.
* Equity Financing.

**Project cost estimation**

Project cost estimation is **the process of predicting the quantity, cost, and price of the resources required by the scope of a project**. Since cost estimation is about the prediction of costs rather than counting the actual cost, a certain degree of uncertainty is involved

**Working capital requirements**

What is Working Capital Requirement? In simple words, working capital requirement can be described as **the amount of money a firm would need to bridge the gap between its accounts payable and accounts receivable**. It is essentially the amount a business requires to keep its operations afloat.

**Duration of Operating Cycle:**The longer it takes

**Inventory turnover:**Stagnant or slow turnover of

**Terms of credit:**Businesses that extend longer

**Production technology:**Usually, labour-intension

**What is Working Capital Requirement?**

In simple words,**working capital requirement**can be described as the amount of money a firm would need to bridge the gap between its accounts payable and accounts receivable. It is essentially the amount a business requires to  keep its operations afloat.

In the case of working capital deficit, businesses can use their outstanding invoices and avail funds to meet their working capital requirement. With KredX businesses can utilize their unpaid invoices to avail working capital within 24 -72 hours\*.

**Factors That Help To Determine Required Working Capital:**

These are among the top factors that help businesses determine their**working capital requirements -**

|  |  |
| --- | --- |
| **Factors** | **Description** |
| **Sales** | A significantly high sales volume generates high revenue which means the working capital required is not much. |
| **Duration of Operating Cycle** | The longer it takes a business to convert current assets into cash and cash equivalents, the more will be the required working capital. |
| **Type of Business** | Trading businesses require relatively high working capital when compared to manufacturing businesses. |
| **Terms of credit** | Businesses that extend longer terms of credit to customers are often in [need of more working capital](https://www.kredx.com/what-is-working-capital/). |
| **Inventory turnover** | Stagnant or slow turnover of extensive inventories results in a higher **working capital requirement.** |
| **Seasonal variation** | Businesses that are dependent on specific seasons may need more working capital. |
| **Production technology** | Usually, labour-intensive businesses require more capital than a business which needs the use of machines. |
| **Contingencies** | A provision to meet the changes in demand and products’ price. |

**How To Compute A Company’s Working Capital Requirement?**

The formula for calculating working capital requirement is given by -

***Working Capital formula = Current Assets - Current Liabilities***

Here, current assets include these following -

* Cash in hand
* Cash equivalent
* Company inventory
* Accounts receivable
* Pre-paid liabilities

Here, current liabilities include these following -

* Accounts payable
* Notes payable
* Income tax owed
* Immediate debts
* Dividends

Based on this formula, businesses can estimate their **working capital requirement** easily. For instance, if the current assets of a firm exceed its current liabilities, it indicates that the firm has surplus working capital. Notably, items like cash commitments, non-trade receivable and old or wasted inventory are excluded or adjusted during the **working capital requirement calculation.**

**Example of Working Capital Requirement Calculation:**

Suppose the current assets of Mr Kumar’s business stands at Rs. 25000, while current liabilities amount to Rs. 45000.

Using the formula -

***Working capital = Current assets - Current liabilities***

  = Rs. (25000 - 45000)

=  - (Rs. 20000)

Since the outcome is negative, it indicates Mr Kumar’s business has a deficit in working capital. It means that his firm’s immediate liquidity is not enough to optimise everyday functions.

Some of the effective ways of reducing working capital gap include -

* Quick collection of accounts receivables
* Reducing inventory cycle
* Reducing credit terms
* Increasing sales volume

However, to meet your **working capital requirement** immediately and to keep operational activities continuous, you can opt for alternative solutions like  invoice discounting services from KredX.

**4 Main Components of Working Capital**

* Trade Receivables. It is also known as account receivables and is represented as current liabilities in balance sheet.
* Inventory.
* Cash and Bank Balances.
* Trade Payables.

**What is the working capital requirement of a project?**

[[](https://www.google.com/search?q=What+is+the+working+capital+requirement+of+a+project?&rlz=1C1CHBD_enIN889IN889&sxsrf=AOaemvJWXHu7rHEJlo-8_oBi-kgvIWyvJA:1639547864325&tbm=isch&source=iu&ictx=1&fir=4tTmOpywmhkDRM,rWLQxNSLXJn0tM,_&vet=1&usg=AI4_-kRWLmn0MyAdLnom6lwEDoMgQjIwUA&sa=X&ved=2ahUKEwiP_K3gj-X0AhXdlNgFHTfpBEgQ9QF6BAgVEAE#imgrc=4tTmOpywmhkDRM)](https://www.google.com/search?q=What+is+the+working+capital+requirement+of+a+project?&rlz=1C1CHBD_enIN889IN889&sxsrf=AOaemvJWXHu7rHEJlo-8_oBi-kgvIWyvJA:1639547864325&tbm=isch&source=iu&ictx=1&fir=4tTmOpywmhkDRM%252CrWLQxNSLXJn0tM%252C_&vet=1&usg=AI4_-kRWLmn0MyAdLnom6lwEDoMgQjIwUA&sa=X&ved=2ahUKEwiP_K3gj-X0AhXdlNgFHTfpBEgQ9QF6BAgVEAE" \l "imgrc=4tTmOpywmhkDRM)

The Working Capital Requirement of a business is **the sum of current assets or the amount of funds necessary to cover the cost of operating expenses of the business**. The two main components of working capital are current assets and current liabilities

**Sources of project funds**

Project finance may come from a variety of sources. The main sources include equity, debt and government grants. Financing from these alternative sources have important implications on project's overall cost, cash flow, ultimate liability and claims to project incomes and assets.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

**Sources Of Financing Business**

* Personal Investment or Personal Savings.
* Venture Capital.
* Business Angels.
* Assistant of Government.
* Commercial Bank Loans and Overdraft.
* Financial Bootstrapping.
* Buyouts.

**What are the types of funding?**

**Listed below are some common funding sources, with a brief explanation of each that will help simplify things for you.**

* Personal Savings: ...
* Family and Friends: ...
* Crowd funding: ...
* Angel Investors: ...
* Venture Capital: ...
* Bank Loans: ...
* Small Business Administration (SBA) Loans

**Capital budgeting**

Capital budgeting is the process a business undertakes to evaluate potential major projects or investments. Construction of a new plant or a big investment in an outside venture are examples of projects that would require capital budgeting before they are approved or rejected.

As part of capital budgeting, a company might assess a prospective project's lifetime cash inflows and outflows to determine whether the potential returns that would be generated meet a sufficient target benchmark. The capital budgeting process is also known as investment appraisal.

* Capital budgeting is used by companies to evaluate major projects and investments, such as new plants or equipment.
* The process involves analyzing a project’s cash inflows and outflows to determine whether the expected return meets a set benchmark.
* The major methods of capital budgeting include discounted cash flow, payback, and throughput analys

Capital budgeting is an accounting principle companies use to determine which projects to pursue. Understanding the different capital budgeting methods can help you understand the decision-making process of companies and investors. In this article, we discuss capital budgeting, why it is important and the different methods you can use.

## Why is capital budgeting important?

Capital budgeting is a valuable tool because it provides a means for evaluating and measuring a project's value throughout its life cycle. It allows you to assess and rank the value of projects or investments that require a large capital investment. For example, investors can use capital budgeting to analyze investment options and decide which ones are worth investing in.

Capital budgeting helps financial decision-makers make informed financial decisions for projects they expect to last a year or more that require a large capital investment. Such projects can include:

* Investing in new equipment, technology and buildings
* Upgrading and maintaining existing equipment and technology
* Completing renovation projects on existing buildings
* Expanding their workforce
* Developing new products
* Expanding into new markets

# What is Capital Budgeting?

Financial decision-makers within a company or organization use capital budgeting to make well-informed decisions. It is used for evaluating potential expenditures or investments that are significant in amount. It involves the decision to invest the current funds for the addition, disposition, modification, or replacement of fixed assets.

Capital budgeting, also known as an investment appraisal, is a financial management tool you can ensure it is adding the expected value and continue to measure the progress of the project. It determines the number of years it takes for a project’s cash flow to pay back the initial cash investment, an assessment of risk, and various other factors

##### What are the Features of Capital Budgeting?

The features of capital budgeting are briefly explained below:

* **Huge Funds**: Capital budgeting involves the investment of funds currently for getting benefits in the future.
* **High Degree of Risk**: To take decisions that involve a huge financial burden can be risky for the company.
* **Affects Future Competitive Strengths**: The future benefits are spread over several years. Sensible investing can improve its competitiveness, whereas a wrong investment may lead to business failure.
* **Difficult Decision**: When the future is dependant on capital budgeting decisions, it becomes difficult for the management to grab the most appropriate investment opportunity.
* **Estimation of Large Profits**: Each project involves a huge amount of funds with the perspective of earning desirable profits in the long term.
* **Long Term Effect**: The effect of the decisions taken, will be visible in the future or the long term.
* **Affects Cost Structure**: For instance, it may increase the fixed cost such as insurance charges, interest, depreciation, rent, etc.
* **Irreversible Decision**: Capital expenditure decisions are irreversible since it involves a high-value asset which may not be sold at the same price once purchased.

##### **What are the Objectives of Capital Budgeting?**

To know more about the necessity of capital budgeting for the companies, let us go through the following objectives:

* **Control of Capital Expenditure**: Estimating the cost of investment provides a base to the management for controlling and managing the required capital expenditure accordingly.
* **Selection of Profitable Projects**: The company has to select the most suitable project out of the multiple options available to it. For this, it has to keep in mind the various factors such as availability of funds, project’s profitability, the rate of return, etc.
* **Identifying the Right Source of Funds**: Locating and selecting the most appropriate source of funds required to make a long-term capital investment is the ultimate aim of capital budgeting. The management needs to consider and compare the cost of borrowing with the expected return on investment for this purpose.

##### Capital Budgeting Process:

* **Project identification and generation**:

The company has various options for capital employment on a long-term basis. In the initial stage, the management needs to analyze the strengths and weaknesses of every project for foreseeing the potential of each option.

* **Evaluating and Assembling Investment Proposals:**

In the next step, the management assembles and compiles all the investment proposals on the grounds of cost, risk involvement, future profits, return on investment, etc.

* **Project Selection**:

Once the proposal has been finalized, the different alternatives for raising or acquiring funds have to be explored by the finance team. This is called preparing the capital budget. The average cost of funds has to be reduced. A detailed procedure for periodical reports and tracking the project for the lifetime needs to be streamlined in the initial phase itself. The final approvals are based on profitability, Economic constituents, viability, and market conditions.

* **Implementation**:

After the apportioning of the long-term investment, the company comes into action for the execution of its decision. To avoid complications and excess time consumption, the management should lay out a detailed plan of the project in advance.

* **Performance review**:

The final stage of capital budgeting involves the comparison of actual results with the standard ones. The management needs to measure and correlate the actual performance with that of the estimated one to figure out the deviation and take corrective actions for the same.

**Risk & uncertainty in project evaluation**

In risk, you **can predict the possibility of a future outcome**, while in uncertainty you cannot. Risks can be managed while uncertainty is uncontrollable. Risks can be measured and quantified, while uncertainty cannot. You can assign a probability to risks events, while with uncertainty,

Risks are commonly assumed to be the same as uncertainty in the area of [risk management](https://pmstudycircle.com/what-is-risk-management/). Although there is a big difference between risk and uncertainty, many professionals often think they are the same.

### Risk

A risk is an unplanned event that may affect one or some of [your project](https://pmstudycircle.com/project/) objectives if it occurs. The risk is positive if it affects your project positively, and it is negative if it affects the project negatively.

There are separate risk response strategies for negatives and positives.

The objective of a [negative risk response strategy](https://pmstudycircle.com/risk-response-strategies-for-negative-risks-or-threats/) is to minimize their impact or probability, while the objective of a [positive risk response strategy](https://pmstudycircle.com/risk-response-strategies-for-positive-risks-or-opportunities/) is to maximize the chance or impact.

### Uncertainty

Uncertainty is a lack of complete certainty. In uncertainty, the outcome of any event is entirely unknown, and it cannot be measured or guessed; you don’t have any background information on the event.

Uncertainty is not an unknown risk.

In uncertainty, you completely lack the background information of an event, even though it has been identified. In the case of unknown risk, although you have the background information, you missed it during the identify risks process.

### Differences between Risk Vs Uncertainty

The following are a few differences between risk and uncertainty:

* In risk, you can predict the possibility of a future outcome, while in uncertainty you cannot.
* Risks can be managed while uncertainty is uncontrollable.
* Risks can be measured and quantified, while uncertainty cannot.
* You can assign a probability to risks events, while with uncertainty, you can’t.

**Preparation of projected financial statements viz. Projected balance sheet**

**What is preparation of the projected financial statements?**

Preparing projected financial statements is a lengthy task, as it requires analysis of the company's finances, reading previous budgets and income statements, and examining the company's current financial situation to make assumptions about the business' financial potential

Projected financial statements provide assumptions about a given company’s financial situation in the future, whether it is an annual or quarterly projection. Preparing projected financial statements is a lengthy task, as it requires analysis of the company’s finances, reading previous budgets and income statements, and examining the company’s current financial situation to make assumptions about the business’ financial potential. The process is the same for smaller, sole-proprietor businesses and well-established corporations.

**The following steps will help prepare the projected balance sheet:**

* Step 1: Calculate cash in hand and cash at the bank. ...
* Step 2: Calculate Fixed Assets. ...
* Step 3: Calculate Value of Financial Instruments. ...
* Step 4: Calculate your Business Earning. ...
* Step 5: Calculate Business's Liabilities. ...
* Step 6: Calculate Business's Capital.

The financial statement prepared first is **your income statement**. As you know by now, the income statement breaks down all of your company's revenues and expenses. You need your income statement first because it gives you the necessary information to generate other financial statements

##### **How to Prepare Projected Balance Sheet**

The following steps will help prepare the projected balance sheet:

###### **Step 1: Calculate cash in hand and cash at the bank**

If you have no booking record of your cash, you can show cash in hand after checking your cash balance in the business’s pocket. You can check also the available balance at the bank. Both will be your current assets on the balance sheet.

###### **Step 2: Calculate Fixed Assets**

 See everything around you. Make the list of assets whose benefits are you taking more than one year. Check its price from cash memo or past bills. Try to calculate the time of its use. If you have used it for 3 years. Its value will surely decrease due to depreciation. Charge 10% to 20% per year on every fixed asset up to the used period with any method of depreciation. Now, you will get the current cost of the fixed asset. Show it on the asset side of the balance sheet.

###### **Step 3: Calculate Value of Financial Instruments**

 If you invested your money in shares, bonds, and other financial instruments. Write its purchase price. If it has decreased, then you can also show the current market price of financial instruments.

###### **Step 4: Calculate your Business Earning**

 If you have not made a profit and loss account. You can compare your expenses and your incomes. If your incomes are more than your expenses, it will be your net profit. That will be transferred to the liability side of the balance sheet. You should only deduct expenses whose benefits, you have obtained in one year.

###### **Step 5: Calculate Business’s Liabilities**

 In these liabilities, you can add bank loans, secured loans, and other loans. That will be added to the liability side of the projected balance sheet.

###### **Step 6: Calculate Business’s Capital**

Business’s capital, you can calculate by subtracting outside liabilities from total assets. That will also add to the balance sheet on the liabilities side.

Non -finance/accounting people will be puzzled about how to create the [***projected balance sheet***](http://finline.in/register). Make one with ***[Finline](http://finline.in/" \t "_blank)*** in less than 10 minutes as you just need to fill in the questions asked by the intelligent software, which will create the projected balance sheet.

**Projected income statement**

A projected income statement shows profits and losses for a specific future period – the next quarter or the next fiscal year, for instance. It uses the same format as a regular income statement, but guesstimating the future rather than crunching numbers from the past. It's also known as a budgeted income statement.

## What is income statement?

An income statement is a financial statement that shows you the company’s income and expenditures. It also shows whether a company is making profit or loss for a given period. The income statement, along with [balance sheet](https://www.zoho.com/books/guides/what-is-a-balance-sheet.html) and [cash flow statement](https://www.zoho.com/books/guides/what-is-a-cash-flow-statement.html), helps you understand the financial health of your business.

The income statement is also known as a profit and loss statement, statement of operation, statement of financial result or income, or earnings statement.

## Importance of an income statement

An income statement helps business owners decide whether they can generate profit by increasing revenues, by decreasing costs, or both. It also shows the effectiveness of the strategies that the business set at the beginning of a financial period. The business owners can refer to this document to see if the strategies have paid off. Based on their analysis, they can come up with the best solutions to yield more profit.

Following are the few other things that an income statement informs.

1. **Frequent reports:** While other financial statements are published annually, the income statement is generated either quarterly or monthly. Due to this, business owners and investors can track the performance of the business closely and make informed decisions. This also enables them to find and fix small business problems before they become large and expensive.
2. **Pinpointing expenses:** This statement highlights the future expenses or any unexpected expenditures which are incurred by the company, and any areas which are over or under budget. Expenses include building rent, salaries and other overhead costs. As a small business begins to grow, it may find its expenses soaring. These expenditures may involve hiring workers, buying supplies and promoting the business.
3. **Overall analysis of the company:** This statement gives investors an overview of the business in which they are planning to invest. Banks and other financial institutions can also analyze this document to decide whether the business is loan-worthy.

## Who uses an income statement?

There are two main groups of people who use this financial statement: internal and external users. Internal users include company management and the board of directors, who use this information to analyze the business’s standing and make decisions in order to turn a profit. They can also act on any concerns regarding cash flow. External users comprise investors, creditors, and competitors. Investors check whether the company is positioned to grow and be profitable in the future, so they can decide whether to invest in the business. Creditors use the income statement to check whether the company has enough cash flow to pay off its loans or take out a new loan. Competitors use them to get details about the success parameters of a business and get to know about areas where the business is spending an extra bit, for example, R&D spends.

## Income statement format with the major components

The following information is covered in an income statement. The format for this document may vary depending on the regulatory requirements, the diverse business needs and the associated operating activities.

**Revenue or sales:** This is the first section on the income statement, and it gives you a summary of gross sales made by the company. Revenue can be classified into two types: operating and non-operating. Operating revenue refers to the revenue gained by a company by performing primary activities like manufacturing a product or providing a service. Non-operating revenue is gained by performing non-core business activities such as installation, operation, or maintenance of a system.

**Cost of goods sold (COGS):** This is the total cost of sales or services, also referred to as the cost incurred to manufacture goods or services. Keep in mind that it only includes the cost of products which you sell. COGS does not usually include indirect costs, like overhead.

**Gross profit:** Gross profit is defined as net sales minus the total cost of goods sold in your business. Net sales is the amount of money you brought in for the goods sold, while COGS is the money you spent to produce those goods.

**Gains:** Gain is a result of a positive event that causes an organization’s income to increase.  Gains indicate the amount of money realized by the company from various business activities like the sale of an operating segment. Likewise, the profits from one time non-business activities are also included as gains for the business. For example, company selling off old vehicles or unused lands etc.  Although gain is considered secondary type of revenue, the two terms are different. Revenue is the money received by a company regularly while gain can be accounted for the sale of fixed assets, which is counted as a rare activity for a company.

**Expenses:** Expenses are the costs that the company has to pay in order to generate revenue. Some examples of common expenses are equipment depreciation, employee wages, and supplier payments. There are two main categories for business expenses: operating and non-operating expenses. Expenses generated by company’s core business activities are operating expenses, while the ones which are not generated by core business activities are known as non-operating expenses.  Sales commission, pension contributions, payroll account for operating expenses while examples of non operating expenses include obsolete inventory charges or settlement of lawsuit.

**Advertising expenses:** These expenses are simply the marketing costs required to expand the client base. They include advertisements in print and online media as well as radio and video ads. Advertising costs are generally considered part of Sales, General & Administrative (SG&A) expenses.

**Administrative expenses:** It can be defined as the expenditure incurred by a business or company as a whole rather than being the ones associated with specific departments of the same company. Some of the examples of administrative expenses are salaries, rent, office supplies, and travel expenses. Administrative expenses are fixed in nature and tend to exist irrespective of the level of sales.

**Depreciation:** Depreciation refers to the practice of distributing the cost of a long-term asset over its life span. It is a management accord to write off a company’s asset value but it is considered a non-cash transaction. Depreciation mainly shows the asset value used up by the business over a period of time.

**Earnings before tax (EBT):** This is a measure of a company’s financial performance. EBT is calculated by subtracting expenses from income, before taxes. It is one of the line items on a multi-step income statement.

**Net income:** Net profit can be defined as the amount of money you earn after deducting allowable business expenses. It is calculated by subtracting total expenses from total revenue. While net income is a company’s earnings, gross profit can be defined as the money earned by a company after deducting the cost of goods sold.

**What is projected income vs actual income?**

Projected Income includes all gift types that are linked to an event record and registration fees, even if they are not linked to gifts. Actual Income includes all gift types that are linked to an event record except Pledges, Recurring Gifts, and MG Pledges.

**Projected Income**includes all gift types that are linked to an event record and registration fees, even if they are not linked to gifts.

**Actual Income** includes all gift types that are linked to an event record except Pledges, Recurring Gifts, and MG Pledges. It only includes registration fees that are linked to gifts.

Projected financial statements incorporate current trends and expectations to arrive at a financial picture that management believes it can attain as of a future date

**Projected funds & cash flow statements**

A projected cash flow statement is **used to evaluate cash inflows and outflows to deter**. ... A projected cash flow statement is best defined as a listing of expected cash inflows and outflows for an upcoming period (usually a year). Anticipated cash transactions are entered for the sub period they are expected to occur.

A company's cash flow and fund flow statements reflect two different variables during a specific period of time. The cash flow will record a company's inflow and outflow of actual cash (cash and cash equivalents). The fund flow **records the movement of cash in and out of the company**.

## Cash Flow vs. Fund Flow: An Overview

There are generally four different kinds of financial statements in accounting: the balance sheet, the income statement, the [cash flow statement](https://www.investopedia.com/terms/c/cashflowstatement.asp), and the fund flow statement. Here, we delve into the final two.

In [financial accounting](https://www.investopedia.com/terms/f/financialaccounting.asp), the statement of cash flows refers to the change in a company's cash and equivalents from one period to the next. The fund flow, however, has two different meanings. One is for accounting purposes, while the other serves investment purposes.

* *A company's cash flow and fund flow statements reflect two different variables during a specific period of time.*
* *The cash flow will record a company's inflow and outflow of actual cash (cash and cash equivalents).*
* *The fund flow records the movement of cash in and out of the company.*
* *Both help provide investors and the market with a snapshot of how the company is doing on a periodic basis.*
* *The cash flow statement is best suited to gauge a company's liquidity profile whereas the fund flow statement is best geared towards long-term financial planning.*

## Cash Flow

[Cash flow](https://www.investopedia.com/terms/c/cashflow.asp) is recorded on a company's cash flow statement. This statement—one of the main statements for a company—shows the inflow and outflow of actual cash (or cash-like assets) from its operational activities. It is a required report under [generally accepted accounting principles](https://www.investopedia.com/terms/g/gaap.asp) (GAAP).

This is different from the [income statement](https://www.investopedia.com/terms/i/incomestatement.asp), which records data or transactions that may not have been fully realized, such as uncollected revenue or unpaid income. The cash flow statement, on the other hand, will already have this information entered and will give a more accurate portrait of how much cash a company is generating.

Cash flow sources can be divided into three different categories on a cash flow statement:

* **Cash flows from operating activities:** Cash generated from the general or core operation of the business would be listed in this category.
* **Cash flows from investing activities:**This section would cover any cash flow spent on investments like new equipment.
* **Cash flows from financing activities:**This category includes any transactions involving debtors, such as proceeds from new debts or dividends paid to investors

**Fund Flow**

* On the accounting side, the [fund flow](https://www.investopedia.com/terms/f/fund-flow.asp) statement was required by GAAP between 1971 and 1987.3
* ﻿ When it was required, the statement of fund flow was primarily used by accountants to report any change in a company's net [working capital](https://www.investopedia.com/terms/w/workingcapital.asp), or the difference between assets and liabilities, during a set period of time. Much of this information is now captured in the statement of cash flow.
* For investment purposes, the fund flow does not give the cash position of a company; if a company wanted to do that, it would prepare its cash flow statement.

The fund flow highlights the movement of cash only—that is, it reflects the net movement after examining inflows and outflows of monetary funds. It will also identify any activity that might be out of character for the company, such as an irregular expense.

## Key Differences

The fund flow statement is the earlier version of the cash flow statement. The cash flow statement is more comprehensive and details the multiple cash flows of a company, rather than just focusing on working capital.

The cash flow statement is best used to understand the [liquidity](https://www.investopedia.com/terms/l/liquidity.asp) position of a firm whereas the fund flow statement is best suited for long-term financial planning, which is why it is an important tool for investors. The fund flow statement is able to identify the sources of cash and their uses, and the cash flow statement starts with looking at the current level of cash and how it leads to the closing balance of cash.

**Preparation of detailed project report**

A detailed project report must include the following information: **Brief information about the project**. ... Other important details of the proffered project idea include information about management teams for the project, details about the building, plant, machinery, etc

**Meaning of detailed project report**

After the planning and the designing part of a project are completed, a [detailed project report](https://www.resurgentindia.com/what-is-detailed-project-report-and-project-feasibility-report) is prepared. A detailed project report is a very extensive and elaborative outline of a project, which includes essential information such as the resources and tasks to be carried out in order to make the project turn into a success. It can also be said that it is the final blueprint of a project after which the implementation and operational process can occur. In this comprehensive project report, the roles and responsibilities are highlighted along with the safety measures if any issue arises while carrying out the plan.

The following points play an essential role in deciding whether a project turns into success:

* Completion of the project within the stipulated period
* Priority to client satisfaction by delivering quality product after the completion of the project
* Completion of the project within the set limits of escalation of cost

The blueprint design's focus has to be to convert the corporate investment into a project idea that gives good monetary returns. A **detailed project report** depicts a practical viewpoint for the implementation of the project. The requirements and risks should also be highlighted in a detailed manner to prevent any troubles that can delay or halt the execution of the project. Hence effective measures must also be stated so that the execution of the project can be carried out hassle-free.

**Contents of a detailed project report**

A **detailed project report**must include the following information:

* Brief information about the project
* Experience and skills of the people involved in the promotion of the project
* Details and practical results of the industrial concerns of the promoters of the project
* Project finance and sources of financing
* Government approvals
* Raw material requirement
* Details of the requisite securities to be given to various financial organizations
* Other important details of the proffered project idea include information about management teams for the project, details about the building, plant, machinery, etc.

**How do you prepare a detail for a project report?**

**A detailed project report must include the following information:**

1. Brief information about the project.
2. Experience and skills of the people involved in the promotion of the project.
3. Details and practical results of the industrial concerns of the promoters of the project.
4. Project finance and sources of financing.

There are lots of type of projects. With single example, you can learn the steps and you can  apply it on your own project. For example, you have to open big retail shop in your city. For this, you are investing own capital. But you have not sufficient fund. This is your project, you need bank loan. For this, you have  to show your project through your project report. Following will its main steps.

Following are its main steps

Write the Proposal on the Top of Report

You have to give clear proposal to bank through your project report. You can write, I have own property in commercial area whose value is Rs. 50,00,000. I am investing same in retail shop. Except this, I have Rs. 10,00,000. But this is not sufficient. I need Rs. 40,00,000 for construction the showroom and adding stocks in the big shop. For, this, I give the proposal. Either, you can give me loan or you can become the partner of 40% in my business. You are bank. You can open your showroom also or you can give me the loan on current market rate. For this, I am  ready to give property registry as security to you.

1. Write the Main Aims of Project

After writing proposal, you should write the main aim of project.  For example, you can write, your aim is to provide basic needed products to final consumers at very cheap rate.

1. Write the Total Budget of Project

In this section, you have to write the budgeted cost of each part of your proposal. For example, you have to construct the shop building. Write the budgeted cost of builders. For example, you have 20 foot X 100 foot place and if the current market cost of builder service is Rs. 100 per square feet, you can write the correct budgeted cost of this. Like this, you have to write the budgeted cost of construction material. Except this, you have to also show the budgeted cost of products which you have to show in this shop.

1. Show the Data of Employees who is working on the Project

You have to show whole staff detail who is working on same project.

1. Highlight of Report

You should highlight the estimated sales and earning if your project will clear.

1. Complete Report with Recommendations

If your CA is making your report, you can write his recommendations in same project report. For this, he will verify your project and then write recommendations. For this, he can make your projected income statement and balance sheet. He will also satisfy  that you are following  different laws applying on your project. He will also calculate projected accounting ratios like debt-equity ratio and current ratio.

**Project finance.**

Project finance is **the funding (financing) of long-term infrastructure, industrial projects, and public services** using a non-recourse or limited recourse financial structure. The debt and equity used to finance the project are paid back from the cash flow generated by the project.

* Project finance involves the public funding of infrastructure and other long-term, capital-intensive projects.
* This often utilizes a non-recourse or limited recourse financial structure.
* A debtor with a non-recourse loan cannot be pursued for any additional payment beyond the seizure of the asset.
* Project debt is typically held in a sufficient minority subsidiary not consolidated on the balance sheet of the respective shareholders (i.e., it is an off-balance sheet item).

**There are three methods in Project Financing:**

* Cost Share Financing or Low interest loan financing.
* Debts Financing.
* Equity Financing.

Project finance is a method of financing very large capital intensive projects, with long gestation period, where the lenders rely on the assets created for the project as security and the cash flow generated by the project as source of funds for repaying their dues.

Simply put, project finance is essentially financing on the security of the project itself, with limited or no recourse against the sponsors of the project or other parties involved in the development and implementation of the project. Due to such characteristics of project finance, the loans sought by the borrowers are always approved by the lenders on the basis of strong in-house appraisal of the cost and viability of the ventures as well as the credit standing of project promoters.

**Why is it important to understand project finance?**

The people involved in a project are used to find financing deal for major construction projects such as mining, transportation and public utility industries, that may result such risks and compensation for repayment of loan, insurance and assets in process. That’s why they need to learn about project finance in order to manage project cash flow for ensuring profits so it can be distributed among multiple parties, such as investors, lenders and other parties.  
  
For whom is it important to understand project finance?

a. Financial managers.

b. Sponsors.

c. Lenders.

d. Consultants and practitioners.

e. Project managers.

f. Builders.

g. Suppliers.

h. Engineers.

i. Researchers

j. Students.

Other examples of project finance include **mining, oil and gas, and buildings and constructions**. Real estate project finance cash flows should be sufficient to cover operating expenses and to fund the financing repayment requirements.