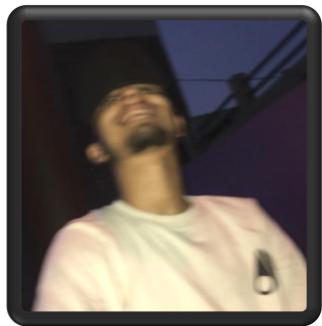


MGMT ACCOUNT.



UNIT TEST – SECTION B

DATE – 15/10/2069

TIME – 11:00

D. Jhawar
Principal
S.M.D.R.S.D. College
Pathankot

- 1. Differentiate between Cash flow statement and Fund flow statement explain the procedure of preparing the cash flow statement under indirect method as per AS3**

- 2. A fund flow statement is a better substitute than income statement discuss.**

3. What is a fund flow statement ? Explain its uses and significance for management how fund flow statement is prepared.

Numerical Chapter :-

A. Fund Flow Statement.

B. Cash Statement.

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SOLUTION.

1. Differentiate between Cashflow statement and Fund flow statement explain the procedure of preparing the cash flow statement under indirect method as per AS.3

Introduction

Every business organization must analyze its financial performance and position through various financial statements.

While the **Profit and Loss Account** shows profitability and the **Balance Sheet** reflects the financial position, both fail to show the movement of cash and working capital.

To overcome this limitation, two important analytical statements are used:

1. **Cash Flow Statement**, and
2. **Fund Flow Statement**.

Both serve the purpose of analyzing financial changes, but their scope, objective, and method of preparation differ.

Meaning of Cash Flow Statement

A Cash Flow Statement is a financial statement that shows the **inflows and outflows of cash and cash equivalents** during a particular accounting period.

According to **Accounting Standard – 3 (AS-3)** issued by the **Institute of Chartered Accountants of India (ICAI)**: “A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows during the period from operating, investing, and financing activities.”

Thus, it reveals how cash is generated and utilized during the period and helps assess liquidity and cash management efficiency.

Meaning of Fund Flow Statement

A Fund Flow Statement is a statement that shows **changes in the financial position of a business in terms of funds (working capital)** between two balance sheet dates.

It explains how funds are obtained and used — that is, **the movement of funds** from various sources (issue of shares, loans, etc.) and their applications (purchase of assets, repayment of liabilities, etc.).

Difference Between Cash Flow Statement and Fund Flow Statement

Basis	Cash Flow Statement	Fund Flow Statement
1. Meaning	Shows inflow and outflow of cash and cash	Shows changes in working

Basis	Cash Flow Statement	Fund Flow Statement
2. Basis of Analysis	equivalents during a period.	capital (funds) between two balance sheet dates.
3. Objective	Based on movement of cash and cash equivalents .	Based on movement of working capital (current assets – current liabilities).
4. Period Covered	To analyze the liquidity position and cash generation capability.	To analyze long-term financial changes and sources & applications of funds.
5.	Usually prepared for one accounting year showing cash flows.	Compares financial position between two balance sheet dates.
	Operating,	Sources of

Basis	Cash Flow Statement	Fund Flow Statement
Components	Investing, and Financing Activities.	Funds and Application of Funds.
6. Scope	Narrower — focuses only on cash movements.	Wider — includes both cash and non-cash changes affecting working capital.
7. Standard Applicable	Governed by AS-3 (Revised) .	Not governed by any accounting standard.
8. Nature of Data Used	Uses actual cash transactions.	Uses accrual accounting data affecting working capital.
9. Objective for Management	Helps in short-term planning, liquidity control, and cash budgeting.	Helps in long-term financial planning and resource allocation.
10. End	Shows net	Shows net

Basis	Cash Flow Statement	Fund Flow Statement
Result	increase or decrease in cash and cash equivalents.	increase or decrease in working capital.

In short:

The **fund flow statement** explains long-term financial changes, while the **cash flow statement** highlights short-term liquidity movements.

Importance of Cash Flow Statement

1. Helps in Liquidity Management:

Shows availability of cash to meet short-term obligations.

2. Evaluates Operating Performance:

Indicates how efficiently the company's core operations generate cash.

3. Assists in Financial Planning:

Helps in making decisions about investment, financing, and dividend policy.

4. Assesses Cash Position:

Determines whether the business has sufficient cash for expansion and debt repayment.

5. Facilitates Comparison:

Useful for comparing cash flow trends across periods and between firms.

Classification of Cash Flows as per AS-3

Under AS-3 (Revised), all cash flows are classified into **three major activities**:

1. Operating Activities

→ Main revenue-producing activities of the business.

Examples:

- Cash receipts from sales of goods and services.
- Cash payments to suppliers and employees.
- Cash paid for operating expenses, taxes, etc.

2. Investing Activities

→ Relate to the acquisition and disposal of long-term assets and investments.

Examples:

- Purchase or sale of machinery, land, or building.
- Purchase or sale of investments.
- Loans and advances made or received.

3. Financing Activities

→ Activities that change the size and composition of owner's capital and borrowings.

Examples:

- Issue of shares or debentures.
- Borrowing or repayment of long-term loans.
- Payment of dividends and interest.

Methods of Preparing a Cash Flow Statement

AS-3 allows two methods to prepare the **cash flow from operating activities**:

1. **Direct Method** – Shows actual receipts and payments (e.g., cash received from customers, cash paid to suppliers, etc.).
2. **Indirect Method** – Starts with **net profit** as per the Profit and Loss Account and adjusts for non-cash and non-operating items.

In most academic and professional cases, the **Indirect Method** is preferred and widely used.

Procedure of Preparing Cash Flow Statement (Indirect Method)

The **indirect method** begins with **Net Profit before Tax and Extraordinary Items**, and then makes certain adjustments to arrive at the **Net Cash from Operating Activities**.

Step 1: Start with Net Profit before Tax and Extraordinary Items

Take the figure of net profit from the Profit and Loss Account for the period.

Step 2: Add Non-Cash and Non-Operating Expenses

These expenses reduce accounting profit but do not involve cash outflow. Hence, they are added back:

- Depreciation on assets
- Amortization of goodwill or patents
- Loss on sale of assets
- Provision for taxation
- Interest on borrowings (if considered as financing activity)

Example:

If depreciation = ₹50,000, and loss on sale of asset = ₹10,000 → Add ₹60,000 back.

Step 3: Deduct Non-Cash and Non-Operating Incomes

These increase profit but do not result in cash inflow from operations. Hence, they are deducted:

- Profit on sale of fixed assets
- Dividend income

- Interest received on investments (if treated as investing activity)
-

Step 4: Adjust for Changes in Working Capital

Working capital = Current Assets – Current Liabilities.

Changes in current assets and current liabilities affect cash position.

Item	Effect on Cash Flow
Increase in Current Assets	Decrease in Cash
Decrease in Current Assets	Increase in Cash
Increase in Current Liabilities	Increase in Cash
Decrease in Current Liabilities	Decrease in Cash

Example:

If debtors increase by ₹20,000 and creditors increase by ₹10,000,

→ Net effect = ₹10,000 decrease in cash ($20,000 - 10,000$).

Step 5: Deduct Taxes Paid

Actual cash paid for income tax is deducted (not provision).

Step 6: Arrive at “Net Cash from Operating Activities”

After all adjustments, the resulting figure represents **net cash inflow or outflow** from operating activities.

Step 7: Show Cash Flows from Investing Activities

Include inflows and outflows from purchase and sale of fixed assets or investments.

Example:

- Sale of Machinery – Cash Inflow
- Purchase of Land – Cash Outflow

Step 8: Show Cash Flows from Financing Activities

Include transactions affecting share capital, borrowings, and dividends.

Example:

- Issue of Shares – Cash Inflow
- Repayment of Loan – Cash Outflow
- Dividend Paid – Cash Outflow

Step 9: Compute Net Increase or Decrease in Cash and Cash Equivalents

Add up the cash flows from **operating, investing, and financing activities**.

Net Cash Flow = Cash from Operating + Cash from Investing + Cash from Financing

Step 10: Reconcile with Opening and Closing Cash Balances

Add the **opening cash and cash equivalents** to the **net increase (or decrease)** in cash to get the **closing cash balance**.

Closing Cash = Opening Cash + Net Increase (or – Decrease)

Illustrative Format (Indirect Method)

**XYZ Ltd. – Cash Flow Statement for the Year Ended
31st March, 2025**

Particulars	₹
A. Cash Flow from Operating Activities	
Net Profit before Tax	xxx
Add: Non-Cash/Non-Operating Expenses	
- Depreciation	xxx
- Loss on Sale of Asset	xxx
Less: Non-Operating Income	
- Profit on Sale of Asset	(xxx)
Adjustments for Changes in Working Capital:	
- Increase/Decrease in Debtors, Creditors, Stock, etc.	xxx
Less: Taxes Paid	(xxx)
Net Cash from Operating Activities	xxx
B. Cash Flow from Investing Activities	
Purchase/Sale of Fixed Assets/Investments	xxx / (xxx)
Interest or Dividend Received	xxx
Net Cash from Investing Activities	xxx
C. Cash Flow from Financing Activities	
Issue/Repayment of Shares or Loans	xxx / (xxx)

Particulars	₹
Dividend or Interest Paid	(xxx)
Net Cash from Financing Activities	xxx
Net Increase/Decrease in Cash & Cash Equivalents (A+B+C)	xxx
Add: Opening Cash Balance	xxx
Closing Cash Balance	xxx

Significance of Indirect Method

- Easier to prepare from existing accounting records.
- Links net profit to actual cash position.
- Highlights non-cash adjustments clearly.
- Shows the impact of working capital changes on liquidity.

Limitations of Cash Flow Statement

1. Non-cash transactions (like depreciation, issue of shares for assets) are ignored.
2. Cannot replace Profit and Loss Account or Balance Sheet.
3. Short-term analysis tool — doesn't show long-term solvency.
4. Preparation requires accurate and updated accounting records.

Conclusion

The **Cash Flow Statement**, especially under the **indirect method as per AS-3**, is one of the most important tools of financial analysis.

It provides a clear picture of how profits are converted into

cash and how cash is generated and used in operating, investing, and financing activities.

In contrast, the **Fund Flow Statement** focuses on changes in working capital.

Together, both statements help management, investors, and analysts to understand a company's liquidity, solvency, and overall financial efficiency.

Thus, the **Cash Flow Statement** serves as a **bridge between the income statement and the balance sheet**, offering valuable insights into a firm's financial strength and cash management.

2. A fund flow statement is a better substitute than income statement discuss.

Introduction

Financial statements are the main tools used to evaluate the performance and financial position of a business enterprise.

The **Income Statement (Profit and Loss Account)** and the **Fund Flow Statement** are both important, but they serve different purposes.

While the Income Statement reveals the *profitability* of an enterprise during a particular accounting period, the Fund Flow Statement explains the *movement of financial resources (funds)* between two balance sheet dates.

Some argue that the Fund Flow Statement provides deeper insight into the financial health of a company, making it a better analytical tool than the Income Statement in certain respects.

Meaning of Income Statement

The **Income Statement** (also known as the **Profit and Loss Account**) shows the **revenues earned** and **expenses incurred** during an accounting period.

The difference between total revenue and total expenses represents **net profit or net loss**.

Objectives of Income Statement:

1. To determine net profit or loss.
2. To measure operating performance.
3. To compare results over time or with other firms.
4. To help in assessing earning capacity.

However, the Income Statement is prepared on an **accrual basis**, meaning it records incomes and expenses when they are earned or incurred — not necessarily when cash is received or paid.

Meaning of Fund Flow Statement

A **Fund Flow Statement** is a statement that shows the **changes in the financial position** of a business in terms of funds (i.e., working capital) between two balance sheet dates.

It explains:

- **Where the funds came from** (sources), and
- **Where the funds were used** (applications).

According to the **Institute of Chartered Accountants of India (ICAI)**:

“A fund flow statement is designed to highlight the significant changes in the financial position of an enterprise between two balance sheet dates.”

In simple words, it explains **how the financial resources of the business have been raised and used** during a specific period.

Objectives of Fund Flow Statement

1. To show the movement of funds from various sources and applications.
2. To identify changes in working capital.
3. To analyze the long-term financial position.
4. To assist management in financial planning.
5. To study how profits are used — whether reinvested or distributed.

Difference Between Fund Flow Statement and Income Statement

Basis	Fund Flow Statement	Income Statement
1. Objective	Shows sources and applications of funds during a period.	Shows profit or loss during a period.
2. Nature	Analytical statement showing changes in financial position.	Summary of revenues and expenses.
3. Basis of Accounting	Prepared on accrual and cash	Based on accrual accounting (non-

Basis	Fund Flow Statement	Income Statement
4. Coverage	basis; focuses on changes in working capital.	cash transactions also included).
5. Focus	Includes both capital and revenue transactions affecting funds.	Includes only revenue transactions.
6. Utility	Focuses on movement of funds (working capital).	Focuses on operating performance (profitability).
7. Depreciation	Used for long-term financial planning and analysis.	Used for short-term performance evaluation.
8. Period Covered	Treated as a non-fund item and added back.	Treated as an expense and deducted from income.
9. End Result	Compares two balance sheet dates.	Covers one accounting period (usually one year).
10. Decision Focus	Net increase or decrease in working capital.	Net profit or loss for the period.
	Helps in investment,	Helps in measuring operational

Basis	Fund Flow Statement	Income Statement
	financing, and dividend decisions.	efficiency.

Why Fund Flow Statement is Considered a Better Substitute

Although both statements have their own importance, the Fund Flow Statement is often regarded as a **better substitute** to the Income Statement for financial analysis because it provides **more comprehensive information** about the company's financial movement.

Below are the major reasons:

1. Explains the Movement of Funds

The Income Statement shows *profits* earned, but it does not explain **how those profits are used**.

The Fund Flow Statement explains **how the funds were generated** (from operations, issue of shares, borrowings) and **how they were utilized** (purchase of assets, repayment of loans, etc.).

Thus, it provides a **complete picture** of financial activities.

2. Focuses on Financial Position, Not Just Profitability

A firm may earn profit but still face a shortage of funds due to poor cash management.

The Income Statement fails to highlight such liquidity issues.

The Fund Flow Statement, however, shows the **actual movement of funds** and changes in working capital, thereby revealing the true **financial strength** of the business.

3. Useful for Long-Term Financial Planning

The Income Statement helps in short-term performance evaluation, whereas the Fund Flow Statement assists management in **long-term decisions** such as expansion, diversification, or repayment of debt.

It helps in determining whether the enterprise has sufficient funds for future commitments.

4. Highlights Non-Operational and Capital Transactions

The Income Statement records only operational items (sales, wages, rent, etc.).

The Fund Flow Statement includes **non-operational items** like issue or redemption of shares, purchase of fixed assets, and repayment of loans — which have significant impact on financial structure.

Hence, it gives a **broader and deeper analysis** of financial changes.

5. Evaluates Financial Discipline and Policy

By showing how funds are generated and utilized, the Fund Flow Statement helps in evaluating the **financial discipline** of the company.

It answers key questions like:

- Is the firm using long-term funds for long-term purposes?
- Is it maintaining a healthy working capital ratio?
- Are profits being ploughed back or distributed excessively?

This type of analysis is not possible through the Income Statement.

6. Aids in Assessing Liquidity and Solvency

The Fund Flow Statement reveals whether the firm's **liquidity position** is improving or declining.

It helps determine the company's ability to meet short-term and long-term obligations, thereby measuring **financial soundness**, which the Income Statement alone cannot show.

7. Helps in Interpreting Reasons for Profit–Cash Gap

It is often observed that a company may show high profits but low cash.

The Fund Flow Statement helps in finding out **where the cash has gone**, such as increased stock, credit sales, or capital expenditure.

This makes it a more realistic tool for cash and fund management.

Example to Illustrate the Difference

Suppose **XYZ Ltd.** reports a net profit of ₹10,00,000 in its Income Statement.

However, its cash balance has declined from ₹5,00,000 to ₹2,00,000 during the same period.

An Income Statement only shows profit. But a **Fund Flow Statement** will reveal that:

- ₹4,00,000 was used for purchase of new machinery,
- ₹3,00,000 was used for repayment of long-term loans,
- and ₹1,00,000 was generated from operations.

Thus, it explains the **true financial movement**, which the Income Statement cannot.

Limitations of Fund Flow Statement

Despite being a better analytical tool, the Fund Flow Statement is not a **complete substitute** for the Income

Statement.

It has some limitations:

1. **Not a Substitute for Profit and Loss Account** – It cannot measure profitability directly.
2. **Historical in Nature** – It is based on past data and not suitable for future forecasting.
3. **Does Not Show Cash Position Clearly** – It deals with working capital, not cash specifically (for that, we need a Cash Flow Statement).
4. **Requires Accurate Financial Statements** – Preparation depends on reliable balance sheet and income data.
5. **Does Not Consider Non-Financial Factors** – Such as market conditions or efficiency of management.

Relationship Between Income Statement and Fund Flow Statement

Both statements are **interdependent**:

- The **starting point** for the Fund Flow Statement is **net profit or loss** obtained from the Income Statement.
- The Fund Flow Statement adjusts this profit to show changes in working capital and fund movement.

Hence, both statements complement each other. The Fund Flow Statement does not replace the Income Statement entirely but provides **additional insights** for decision-making.

Conclusion

While the **Income Statement** measures profitability, the **Fund Flow Statement** provides a clearer picture of financial movements and stability.

It explains how profits are used, whether the company's

resources are efficiently managed, and how its financial position changes over time.

Therefore, in terms of **financial analysis and planning**, the Fund Flow Statement is often considered a **better and more informative substitute** than the Income Statement.

However, both are essential — the Income Statement for **measuring performance**, and the Fund Flow Statement for **analyzing financial position and fund management**.

Together, they give a **comprehensive view** of a company's operational efficiency and financial health.

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3. What is a fund flow statement ? Explain its uses and significance for management how fund flow statement is prepared.

Introduction

Financial statements are the main tools used to evaluate the performance and financial position of a business enterprise. The **Income Statement (Profit and Loss Account)** and the

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- **Where the funds came from** (sources), and
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According to the **Institute of Chartered Accountants of India (ICAI)**:

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Objectives of Fund Flow Statement

1. To show the movement of funds from various sources and applications.
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Basis	Fund Flow Statement	Income Statement
3. Basis of Accounting	Prepared on accrual and cash basis; focuses on changes in working capital.	Based on accrual accounting (non-cash transactions also included).
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10. Decision Focus	Helps in investment, financing, and dividend decisions.	Helps in measuring operational efficiency.

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Limitations of Fund Flow Statement

Despite being a better analytical tool, the Fund Flow Statement is not a **complete substitute** for the Income Statement.

It has some limitations:

1. **Not a Substitute for Profit and Loss Account** – It cannot measure profitability directly.
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Conclusion

While the **Income Statement** measures profitability, the **Fund Flow Statement** provides a clearer picture of financial movements and stability.

It explains how profits are used, whether the company's

resources are efficiently managed, and how its financial position changes over time.

Therefore, in terms of **financial analysis and planning**, the Fund Flow Statement is often considered a **better and more informative substitute** than the Income Statement.

However, both are essential — the Income Statement for **measuring performance**, the Fund Flow Statement for **analyzing financial position and fund management**.

Together, they give a **comprehensive view** of a company's operational efficiency and financial health.

4. Numerical Chapter :-

A. Fund Flow Statement.

B. Cash Statement.

Meaning of Fund Flow Statement

A **Fund Flow Statement** is one of the most important tools of financial analysis used in corporate accounting. It is a statement that shows the movement of funds — that is, the inflow and outflow of financial resources — during a particular period of time, usually one accounting year.

In simple terms, a fund flow statement explains **where the funds came from (sources of funds)** and **how they were used**

(application of funds). It shows the changes in the financial position of a company between two balance sheet dates.

It is also known as a **Statement of Sources and Application of Funds** or **Statement of Changes in Financial Position on a Working Capital Basis**.

According to the Institute of Chartered Accountants of India (ICAI):

“A fund flow statement is a report on the movement of funds explaining where from the funds were obtained and where they were used during a particular period.”

Thus, the fund flow statement provides a link between two balance sheets by analyzing the causes of changes in working capital.

Meaning of the Term ‘Fund’

The term ‘**fund**’ has different meanings in accounting. However, in the context of the fund flow statement, it generally refers to **working capital**, i.e., the difference between current assets and current liabilities.

Working Capital=Current Assets–Current Liabilities
Working Capital = Current Assets - Current Liabilities
Working Capital=Current Assets–Current Liabilities

Therefore, the fund flow statement explains the reasons for changes in working capital between two balance sheet dates.

Meaning of the Term ‘Flow’

The term '**flow**' means movement. In this statement, it refers to the **movement of funds** — either **inflow** or **outflow**.

- When the funds are received by the business, there is an **inflow** of funds.
- When the funds are spent or used, there is an **outflow** of funds.

Thus, fund flow means the movement of funds in and out of the business organization.

Definition of Fund Flow Statement

1. Smith and Brown define it as:

"A fund flow statement is a statement prepared to indicate the increase in cash resources and the utilization of such resources of a business during a particular period."

2. Foulke defines it as:

"The fund flow statement summarizes the reasons for changes in the financial position of a business enterprise between two balance sheet dates."

From these definitions, it is clear that a fund flow statement is a tool for analyzing financial changes and understanding the sources and uses of funds.

Uses and Importance of Fund Flow Statement

A fund flow statement is a very useful document for management, investors, bankers, and other stakeholders. Its main **uses and significance** are as follows:

1. Analysis of Financial Position

The fund flow statement helps management to analyze the changes in the financial position between two accounting periods. It explains how funds were raised and how they were used, which helps in understanding whether the company's financial health has improved or deteriorated.

2. Evaluation of Working Capital Management

Since the fund flow statement is based on changes in working capital, it helps management evaluate whether the working capital of the company is adequate, excessive, or deficient. It also indicates whether the short-term funds are being used properly.

3. Helpful in Long-Term Financial Planning

Fund flow analysis is extremely useful for long-term financial planning. It shows whether funds from operations are sufficient to meet capital expenditures or whether the company has to depend on external financing. Management can make proper decisions about future investments, financing, and dividend policies.

4. Aids in Dividend Decision

It helps management decide whether sufficient funds are available to pay dividends without affecting the company's working capital or operational needs.

5. Helps in Obtaining Loans

Financial institutions and banks often require fund flow statements before sanctioning loans. These statements help them assess the company's ability to repay debts and the financial discipline maintained in managing funds.

6. Comparative Analysis

By preparing fund flow statements for several years, management can compare changes in financial structure and working capital trends over time, which helps in making informed strategic decisions.

7. Helpful in Corporate Restructuring

When a company plans mergers, acquisitions, or expansion, fund flow statements help determine the firm's capacity to raise and utilize funds efficiently for such restructuring activities.

8. Control over the Use of Funds

The fund flow statement provides information about the proper utilization of funds. It shows whether funds have been used for productive purposes such as purchase of fixed assets or wasted in unproductive areas.

Limitations of Fund Flow Statement

Despite its usefulness, the fund flow statement has some limitations:

- 1. Historical Nature:** It shows the movement of funds in the past and not the present or future situation.
- 2. Non-Cash Items Ignored:** It ignores transactions that do not involve fund movement, such as depreciation or revaluation of assets.
- 3. Not a Substitute for Financial Statements:** It cannot replace the income statement or balance sheet; it only supplements them.
- 4. Based on Accounting Data:** The accuracy of the fund flow statement depends on the correctness of accounting records.

Preparation of Fund Flow Statement

The preparation of a fund flow statement involves **three major steps**:

Step 1: Preparation of Schedule of Changes in Working Capital

This schedule shows the changes in current assets and current liabilities between two balance sheet dates.

Procedure:

1. List all current assets (cash, debtors, bills receivable, stock, etc.) and current liabilities (creditors, bills payable, outstanding expenses, etc.) for both years.
 2. Calculate the change in each item.
 3. If current assets increase or current liabilities decrease → working capital increases.
 4. If current assets decrease or current liabilities increase → working capital decreases.
 5. The net change will show the increase or decrease in working capital.
-

Step 2: Calculation of Funds from Operations

This step identifies the funds generated from business operations. It is calculated by adjusting the net profit for non-fund and non-operating items.

Procedure:

Start with **Net Profit**, then:

- **Add back** non-fund and non-operating expenses:
 - Depreciation
 - Amortization
 - Loss on sale of assets
 - Goodwill written off, etc.
- **Subtract** non-fund and non-operating incomes:
 - Profit on sale of assets

- Dividend income
- Non-trading incomes, etc.

The resulting figure is called **Funds from Operations**.

Step 3: Preparation of Fund Flow Statement

After determining the changes in working capital and funds from operations, the final fund flow statement is prepared showing:

Format of Fund Flow Statement

Particulars	Amount (₹)
--------------------	-------------------

Sources of Funds:

Issue of share capital	xxx
------------------------	-----

Issue of debentures	xxx
---------------------	-----

Long-term borrowings	xxx
----------------------	-----

Sale of fixed assets	xxx
----------------------	-----

Funds from operations	xxx
-----------------------	-----

Total Sources of Funds	xxx
-------------------------------	-----

Application of Funds:

Purchase of fixed assets	xxx
--------------------------	-----

Redemption of shares/debentures	xxx
---------------------------------	-----

Repayment of loans	xxx
--------------------	-----

Payment of dividend/tax	xxx
-------------------------	-----

Particulars	Amount (₹)
Increase in working capital	xxx
Total Application of Funds	xxx

The total of both sides must be equal, showing that every inflow has a corresponding outflow.

Significance for Management

- 1. Financial Analysis:** Helps management understand the company's internal financial structure.
 - 2. Policy Formulation:** Aids in creating sound financial and investment policies.
 - 3. Liquidity Management:** Assists in maintaining a healthy balance between liquidity and profitability.
 - 4. Investor Confidence:** Improves transparency and helps investors understand how funds are used.
 - 5. Budgetary Control:** Acts as a control mechanism for comparing planned and actual fund movements.
-

Conclusion

A **Fund Flow Statement** is an essential tool for financial analysis and management decision-making. It not only shows the movement of funds but also reveals how efficiently the management has utilized the financial resources of the enterprise.

By analyzing sources and uses of funds, management can plan for future capital requirements, maintain liquidity, and improve operational efficiency. Though it has some limitations, its importance in understanding financial health and planning for long-term stability cannot be denied.

☒ In summary:

- **Definition:** Statement showing sources and uses of funds.
- **Objective:** To explain changes in working capital.
- **Steps:** (1) Schedule of changes in working capital, (2) Funds from operations, (3) Fund flow statement.
- **Usefulness:** Helps management in planning, control, and financial analysis.

Would you like me to make this version **formatted as a printable 5-page Word/PDF file** (with headings, spacing, and page breaks as per GNDU answer sheet style)?

You said:

4. Numerical Chapter :- A. Fund Flow Statement. B. Cash Statement.

ChatGPT said:

Got it ☐ — you're referring to **Numerical Chapter 4**, which covers:

- A. **Fund Flow Statement**
- B. **Cash Flow Statement**

Let's go through both in a **GNDU-style academic explanation** with **definitions, differences, formats, and solved numerical examples** — exactly the way it's expected in BCom 3rd Semester *Corporate Accounting* exams.

CHAPTER 4 – FUND FLOW STATEMENT AND CASH FLOW STATEMENT

A. FUND FLOW STATEMENT

1. Meaning

A **Fund Flow Statement** is a statement that shows the movement of funds — how funds were **obtained (sources)** and **used (applications)** during an accounting period. It explains the changes in the financial position of a business between two balance sheet dates.

It is also called a **Statement of Changes in Financial Position** or a **Statement of Sources and Application of Funds**.

2. Objective

The main objectives of preparing a Fund Flow Statement are:

- To study changes in working capital.
- To identify the sources from which funds were raised.
- To know how these funds were used.
- To assist management in financial planning and control.

3. Steps to Prepare Fund Flow Statement

Step 1: Prepare a Schedule of Changes in Working Capital

Particulars	Previous Year	Current Year	Increase	Decrease
Current Assets	₹	₹	₹	₹
Current Liabilities	₹	₹	₹	₹

Net Working Capital (CA - CL)

Increase in working capital → Application of funds

Decrease in working capital → Source of funds

Step 2: Calculate Funds from Operations

Start with **Net Profit**, and then adjust:

Add:

- Depreciation
- Goodwill written off
- Loss on sale of assets
- Preliminary expenses written off

Less:

- Profit on sale of assets
- Dividend received

- Non-operating income

Result = Funds from Operations

Step 3: Prepare the Fund Flow Statement

Sources of Funds	₹ Application of Funds ₹
Issue of shares	xxx Purchase of fixed assets xxx
Issue of debentures	xxx Redemption of debentures xxx
Long-term loan raised	xxx Repayment of loans xxx
Sale of fixed assets	xxx Dividend paid xxx
Funds from operations	xxx Tax paid xxx
Decrease in working capital	xxx Increase in working capital xxx
Total	xxx Total xxx

4. Example:

Balance Sheets of XYZ Ltd.

Liabilities	2024 (₹)	2025 (₹)	Assets	2024 (₹)	2025 (₹)
Share Capital	80,000	1,00,000	Fixed Assets	1,00,000	1,20,000
Creditors	20,000	15,000	Stock	25,000	30,000
P&L Account	10,000	15,000	Debtors	10,000	15,000
			Cash	5,000	5,000

Liabilities	2024 (₹)	2025 (₹)	Assets	2024 (₹)	2025 (₹)
Total	1,10,000	1,30,000	Total	1,10,000	1,30,000

Step 1 – Schedule of Changes in Working Capital

Particulars	2024	2025	Increase Decrease
Current Assets (Stock + Debtors + Cash)	40,000	50,000	10,000 —
Current Liabilities (Creditors)	20,000	15,000	— 5,000
Net Working Capital	20,000	35,000	15,000↑ —

→ Increase in Working Capital = ₹15,000 (Application)

Step 2 – Funds from Operations

Increase in P&L = ₹5,000
(Assume no non-cash items)

→ **Funds from Operations = ₹5,000**

Step 3 – Fund Flow Statement

Sources of Funds	₹	Application of Funds	₹
Issue of Share Capital	20,000	Purchase of Fixed Assets	20,000
Funds from Operations	5,000	Increase in Working Capital	15,000

Sources of Funds	₹	Application of Funds	₹
Total	25,000	Total	25,000

Conclusion:

Funds raised during the year = ₹25,000

Funds applied = ₹25,000

5. Importance of Fund Flow Statement

- Evaluates financial position
- Helps in long-term planning
- Controls fund utilization
- Aids in loan decisions
- Analyses changes in working capital

B. CASH FLOW STATEMENT

1. Meaning

A **Cash Flow Statement** is a financial statement that shows the **inflow and outflow of cash and cash equivalents** during a particular accounting period.

It helps to assess the company's ability to generate cash from operations and its liquidity position.

As per **Accounting Standard (AS) – 3 (Revised)**:

“A Cash Flow Statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing, and financing activities.”

2. Objectives of Cash Flow Statement

- To show the inflows and outflows of cash.
 - To help management understand the liquidity position.
 - To evaluate the firm's ability to generate cash.
 - To assist in short-term financial planning.
-

3. Classification of Cash Flows

1. Operating Activities:

Main revenue-generating activities.

Examples:

- Cash receipts from customers
- Cash payments to suppliers
- Payment of wages, rent, taxes

2. Investing Activities:

Acquisition and disposal of long-term assets.

Examples:

- Purchase/sale of fixed assets
- Purchase/sale of investments

3. Financing Activities:

Activities that change capital structure.

Examples:

- Issue or redemption of shares
 - Borrowing or repayment of loans
 - Payment of dividends
-

4. Format of Cash Flow Statement (AS-3)

Particulars ₹

A. Cash Flow from Operating Activities

Net Profit before tax	xxx
Adjustments for non-cash items	xxx
Changes in working capital	xxx
Net Cash from Operating Activities	xxx

B. Cash Flow from Investing Activities

Purchase of fixed assets	(xxx)
Sale of fixed assets	xxx
Net Cash from Investing Activities	xxx

C. Cash Flow from Financing Activities

Issue of shares/debentures	xxx
Repayment of loans	(xxx)

Particulars	₹
Dividend paid	(xxx)
Net Cash from Financing Activities	xxx
Net Increase/Decrease in Cash	xxx
Add: Opening Cash Balance	xxx
Closing Cash Balance	xxx

5. Example:

Given Data:

- Net Profit = ₹40,000
- Depreciation = ₹10,000
- Increase in Debtors = ₹5,000
- Decrease in Creditors = ₹3,000
- Purchase of Machinery = ₹20,000
- Issue of Share Capital = ₹25,000
- Dividend Paid = ₹8,000
- Opening Cash = ₹12,000

Solution:

A. Cash Flow from Operating Activities

Particulars	₹
--------------------	----------

Particulars	₹
Net Profit	40,000
Add: Depreciation	10,000
Less: Increase in Debtors	(5,000)
Less: Decrease in Creditors	(3,000)

Net Cash from Operating Activities 42,000

B. Cash Flow from Investing Activities

Particulars	₹
Purchase of Machinery	(20,000)
Net Cash used in Investing Activities (20,000)	

C. Cash Flow from Financing Activities

Particulars	₹
Issue of Share Capital	25,000
Dividend Paid	(8,000)
Net Cash from Financing Activities 17,000	

D. Net Cash Position

Particulars	₹

Particulars	₹
Net Increase in Cash (A + B + C)	39,000
Add: Opening Cash	12,000
Closing Cash Balance	51,000

Result: Closing Cash = ₹51,000

6. Differences Between Fund Flow and Cash Flow Statements

Basis	Fund Flow Statement	Cash Flow Statement
Meaning	Shows movement of funds (working capital)	Shows movement of cash and cash equivalents
Basis	Working capital concept	Cash basis
Objective	To know changes in financial position	To know liquidity and cash position
Period Covered	Long-term	Short-term
Activities Covered	Sources and uses of funds	Operating, investing, financing
Utility	Long-term planning	Short-term cash management
Format	No fixed format	Prescribed by AS-3

7. Importance of Cash Flow Statement

- Helps in **liquidity management**
 - Aids in **cash budgeting**
 - Useful for **investors and creditors**
 - Helps in **performance evaluation**
 - Reveals **cash-generating capacity**
-

Conclusion

Both **Fund Flow Statement** and **Cash Flow Statement** are vital tools of financial analysis.

- Fund Flow reveals long-term financial changes and working capital movement.
- Cash Flow highlights short-term liquidity and cash management.

Together, they provide a complete picture of the company's financial strength, efficiency, and resource utilization.