



FRSA (FUND FLOW STATEMENT)

SEMESTER- 6

FUND FLOW

- ▶ TRANSFER OF ECONOMIC VALUES FROM ONE ASSET OF EQUITY TO ANOTHER.
- ▶ MOVEMENT OF FUNDS IN WORKING CAPITALS
- ▶ IT TAKES PLACE WHEN ANY TRANSACTION MAKES CHANGES IN THE AMOUNT OF FUNDS AVAILABLE BEFORE HAPPENING OF THE TRANSACTION.
- ▶ IF THERE IS INCREASE OF FUNDS,IT IS SOURCE OF FUNDS
- ▶ IF THERE IS A DECREASE OF FUNDS,IT IS AN APPLICATION OF FUNDS

INCREASES → SOURCE OR INFLOW

DECREASE → APPLICATION OR OUT FLOW

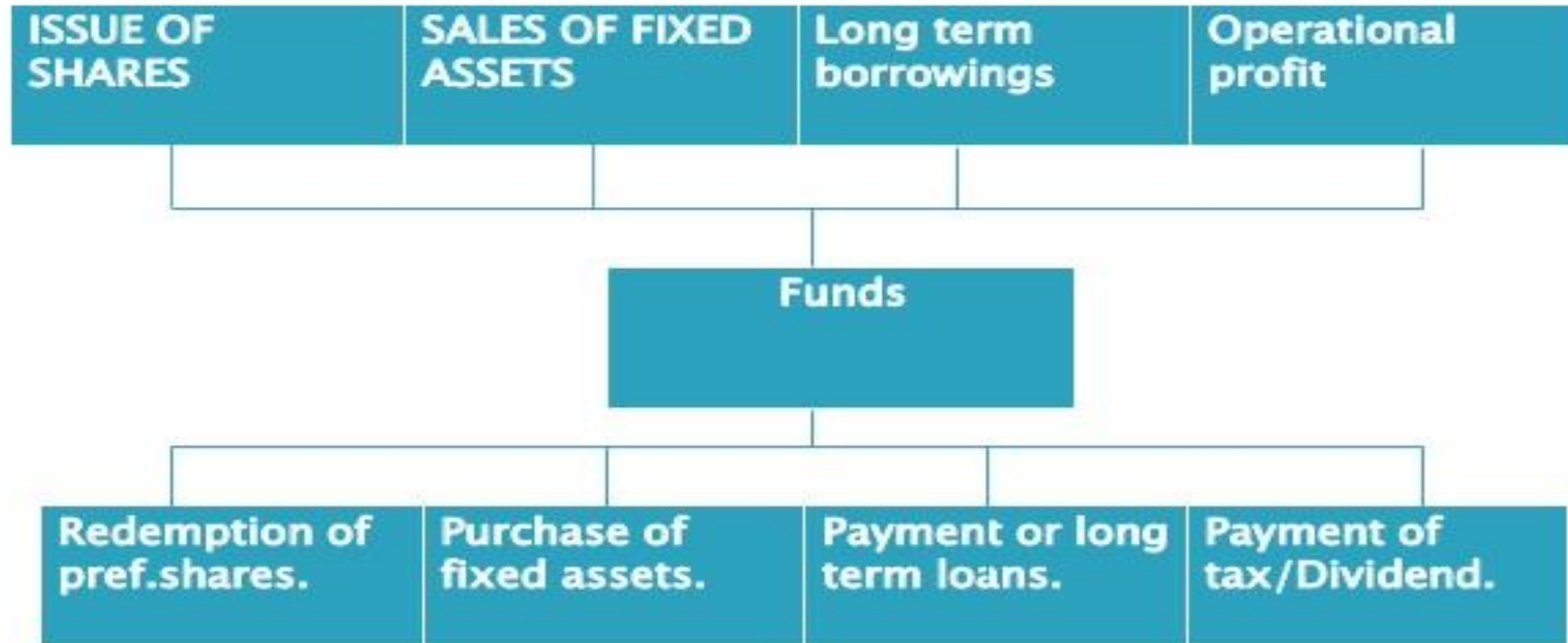
MEANING OF FUNDS

- ▶ IN NARROW SENSE, IT MEANS CASH ONLY AND A FUNDS FLOW STATEMENT PREPARED ON THIS BASIS IS CALLED A CASH FLOW STATEMENT. SUCH A STATEMENT ENUMERATES NET EFFECTS OF THE VARIOUS TRANSACTIONS ON CASH AND TAKES INTO ACCOUNT RECEIPTS AND DISBURSEMENT OF CASH.
- ▶ IN A BROADER SENSE, THE TERM 'FUNDS' REFERS TO MONEY VALUES IN WHATEVER FORM IT MAY EXIST. MEANS ALL FINANCIAL RESOURCES USED IN BUSINESS WHETHER IN THE FORM OF MEN, MATERIAL, MONEY, MACHINERY, METHODS ETC.
- ▶ IN A POPULAR SENSE THE TERM 'FUNDS' MEANS WORKING CAPITAL WHICH IS THE EXCESS OF CURRENT ASSETS OVER CURRENT LIABILITIES

OBJECTIVES:

- ▶ TO INDICATE THE RESULTS OF CURRENT FINANCIAL MANAGEMENT.
- ▶ TO LAY EMPHASIS ON THE MOST SIGNIFICANT CHANGES THAT HAS TAKEN PLACE, DURING A SPECIFIC PERIOD.
- ▶ TO SHOW HOW GENERAL EXPANSION IN THE BUSINESS HAS BEEN FINANCED OR TO DESCRIBED THE SOURCES FROM WHICH ADDITIONAL FUNDS WERE DERIVED.

SOURCES



USES AND LIMITATIONS OF FUND FLOW STATEMENT

USES:

- ▶ EXPLAINS THE FINANCIAL CONSEQUENCES OF BUSINESS.
- ▶ DEBT CAPITAL IS ESSENTIAL FOR INCREASED PROFITS.
- ▶ ACTS AS AN INSTRUMENT FOR ALLOCATION OF COMPANY'S RESOURCES.
- ▶ TEST FOR EVALUATING USE OF WORKING CAPITAL BY THE MANAGEMENT INFORMATION.

DIFFERENCES BETWEEN FUND FLOW AND CASH FLOW

FUND FLOW STATEMENT	CASH FLOW STATEMENT
1. IT IS BASED ON THE CONCEPT OF WORKING CAPITAL..	1. IT IS BASED ON THE CONCEPT OF CASH.
2. IT REVEALS CHANGES IN WORKING CAPITAL POSITION BETWEEN TWO BALANCE SHEET DATES.	2. IT REVEALS CHANGE IN CASH POSITION BETWEEN TWO BALANCE SHEET DATES.
3. CLASSIFICATION OF ASSETS AND LIABILITIES INTO CURRENT AND NON - CURRENT CATEGORIES IS ESSENTIAL.	3. NO SUCH CLASSIFICATION NECESSARY.
4. THESE STATEMENTS MATCH SOURCES AND APPLICATION OF FUND.	4. IT COMMENCES WITH OPENING CASH BALANCE AND ENDS WITH CLOSING CASH BALANCE.

FUND FLOW STATEMENT	CASH FLOW STATEMENT
5. AN IMPROVEMENT IN CASH POSITION RESULTS IN THE IMPROVEMENT IN WORKING CAPITAL.	5. AN INCREASE IN CASH ON HAND DOES NOT RESULT IN INCREASE IN WORKING CAPITAL..
6. IT IS LONG -TERM TOOL FINANCIAL ANALYSIS.	6. IT IS A SHORT - TERM TOOL OF FINANCIAL ANALYSIS.

Technique for preparing a funds flow statement

A funds flow statement depicts change in working capital.

It can be prepared by comparing the current assets and the current liabilities of two periods.

It will, therefore, be better for the students to prepare first a Schedule of Changes in Working Capital before preparing a funds flow statement.

The primary purpose of the statement is to explain the net change in Working Capital, as arrived in Funds Flow Statement.

► RULES FOR PREPARING THE STATEMENT OF CHANGES IN WORKING CAPITAL:

1. INCREASE IN CURRENT ASSET, RESULTS IN INCREASE (+) IN WORKING CAPITAL.
2. DECREASE IN CURRENT ASSET, RESULTS IN DECREASES (–) IN WORKING CAPITAL.
3. INCREASE IN A CURRENT LIABILITY, RESULTS IN DECREASE (–) IN WORKING CAPITAL.
4. DECREASE IN A CURRENT LIABILITY, RESULTS IN INCREASE (+) IN WORKING CAPITAL.

Calculation of Fund from operation

It can be calculated by preparing
Profit & loss Adjustment a/c

Particular	Amount	Particular	Amount
Depreciation		Profit or gain on sale of fixed asset	
Loss on sale of fixed assets		Dividend received	
Under writing commissions		Interest received of investment	
Discount on issue of shares & debentures		Profit on revaluation of asset	
Preliminary expense written off		Fund from operation	
Deferred revenue expenses			
Goodwill written off			
Patent or trademark			
Provision for taxes			
(If treated non current)			

Format of Fund Flow Statement

(As on.....)

Sources of Funds	Amount	Application of Funds	Amount
Issue of share capital	Redemption of pref. share
Issue of debenture	Redemption of debenture
Raising of long term loan	Payment of long term loan
Sales of fixed assets	Purchase of fixed assets
Interest received	Interest paid
Dividend received	Dividend paid
Refund of Taxes	Payment of Taxes
Decrease in working capital	Increase in working capital
Fund from operation		
TOTAL	TOTAL

1. STATEMENT OF CHANGES IN WORKING CAPITAL

	PREVIOUS YEAR RS.	CURRENT YEAR RS.	EFFECT OF WORKING	CHANGE ON CAPITAL
			INCREASE RS.	DECREASE RS.
CURRENT ASSETS CASH BANK B/R DEBTORSSTOCK PREPAID EXPENSES				
TOTAL (a) CURRENT LIABILITIES OUTSTANDING EXP B/P CREDITORS				

TOTAL (b)				
WORKING CAPITAL (a-b)				
NET INCREASE/DECREASE IN WORKING CAPITAL				

■

Eg.: FROM THE FOLL. TWO BALANCE SHEETS ON
31.03.2001 AND 31.03.2002 PREPARE A SCHEDULE
OF CHANGES IN WORKING CAPITAL.

LIABILITIES	2002 RS.	2001 RS.	ASSETS	2002 RS.	2001 RS.
SHARE CAPITAL	3,25000	3,00000	LAND & BUILDINGS	5,00000	4,00000
P and L A/C	1,20000	1,00000	MACHINERY	1,00000	1,60000
9% DEBENTURES	2,00000	2,00000	STOCK – IN TRADE	1,00,000	80,000
TRADE CREDITORS	98,000	75,000	DEBTORS	30,000	36,000
OUTSTANDING CREDITORS	2,000	5,000	CASH	5,000	4,000
	7,45000	6,80000		7,45,000	6,80000

SOLUTION:

	2001 RS.	2002 RS.	EFFECTS ON CAPITAL	WORKING
			INCREASE (+) RS.	DECREASE (-) RS.
CURRENT ASSETS:				
STOCK – IN TRADE	80,000	1,10,000	30,000	
DEBTORS	36,000	30,000		6,000
CASH	4,000	5,000	1,000	
(a) TOTAL CURRENT ASSET	1,20,000	1,45,000		

CURRENT LIABILITIES:				
TRADE CREDITORS	75,000	98,000		23,000
OUTSTANDING CREDITORS	5,000	2,000	3,000	
(b) TOTAL CURRENT LIABILITIES	80,000	1,00,000		
WORKING CAPITAL (a – b)	40,000	45,000		5,000
NET INCREASE IN WORKING CAPITAL	5,000			
	45,000	45,000	34,000	34,000

I- Statement/Schedule of Changes in Working Capital

Schedule/Statement of Changes in Working Capital for the period from 31/03/06 to 31/03/07

Particulars/ Account	Balance as on 31 st March		Working Capital Change	
	2006	2007	Increase	Decrease
a) CURRENT ASSETS				
1) Stock/Inventories	826,000	724,000		102,000
2) Sundry Debtors	1,200,000	1,280,000	80,000	
3) Bills Receivable	800,000	721,000		79,000
4) Bank	500,000	483,000		17,000
5) Cash	84,000	118,000	34,000	
TOTAL	3,410,000	3,326,000	114,000	198,000
b) CURRENT LIABILITIES				
1) Bills Payable	400,000	680,000		280,000
2) Sundry Creditors	1,400,000	1,220,000	180,000	
3) Provision for Taxation	200,000	180,000	20,000	
TOTAL	2,000,000	2,080,000	200,000	280,000
Working Capital [(a) – (b)]	1,410,000	1,246,000		
TOTAL			314,000	478,000
Net Change in Working Capital				164,000

Previous Years' C.U. Question Papers (with Solution)

Illustration 18

Calculate Fund from Operation from the information given below : (figures in ₹)

Profit as per Profit and Loss Statement

Other items in Profit and Loss Statement :

Depreciation charged

Profit on sale of asset

Interest paid

Salary for the year

1,82,000

25,000

12,000

10,000

87,000

[C.U.B.Com. (Genl.) — 2019]

Solution

Calculation of Funds from Operations

Particulars	₹	₹
Profit as per Profit and Loss Statement		1,82,000
Add: Depreciation Charged (Note 1)	25,000	
Interest Charges / Paid (Note 2)	10,000	
Profit on Sale of Asset (Note 3)	(12,000)	23,000
Funds from Operations		2,05,000

Working Notes :

(1) Depreciation is adjusted since it is a non-cash expense.

(2) Interest paid is a financial expense, to be shown separately in Fund Flow Statement.

(3) Profit on sale of asset is a non-operating income, hence deducted.

Illustration 19

Following the liabilities and assets of Andhra Ltd. as on 31.03.2017 and 31.03.2018 :

Particulars (1)	31.03.2017 (₹) (3)	31.03.2018 (₹) (4)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds :		
(a) Equity Share of ₹ 10 each fully paid	8,00,000	10,00,000
(b) Reserves and Surplus :		
Securities Premium	1,00,000	1,20,000
General Reserve	3,60,000	4,40,000
Profit and Loss Balance	2,20,000	2,96,000
(2) Non-current Liabilities :		
(a) Bank Loan	4,20,000	4,60,000
(3) Current Liabilities :		
(a) Trade Payables	1,66,000	2,16,000
(b) Provision for Tax	2,00,000	2,10,000
TOTAL	22,66,000	27,42,000
II. ASSETS		
(1) Non-current Assets :		
(a) Property, Plant and Equipment : Tangible	17,00,000	20,60,000
(b) Non-current Investment	96,000	1,24,000

3.58 Funds Flow Statement

(2) Current Assets		
(a) Inventories	2,40,000	2,80,000
(b) Trade Receivables	1,60,000	1,90,000
(c) Cash and Cash Equivalents	70,000	88,000
TOTAL	22,56,000	21,42,000

Following further particulars for the year 2017-18 are also given :

- Dividend paid during the year ₹ 75,000.
- The company sold part of the fixed asset for ₹ 24,000 (W.D.V. ₹ 20,000). Depreciation charged on fixed assets during the year ₹ 1,40,000.
- Investment costing ₹ 16,000 was sold during the year for ₹ 19,000.
- Interest on Investment received ₹ 7,000 and credited to Profit and Loss Account.
- Interest accrued and paid during the year on Bank Loan ₹ 24,000.
- Income tax provided during the year ₹ 1,98,000.

You are required to prepare :

- the schedule of changes in working capital from 31.03.2017 to 31.03.2018; and
- the Fund Flow Statement of Andhra Ltd. for the year ended 31.03.2018.

[C.U.B.Com. (Hons.) — 2019]

Solution

Andhra Ltd. Funds Flow Statement for the year ended 31.3.2018

Sources	₹	Applications	₹
Issue of Shares at a premium (2,00,000 + 20,000)	2,20,000	Dividend Paid	75,000
Bank Loan raised	40,000	Income Tax Paid (Note 3)	1,98,000
Sale of Property, Plant & Equipment (Note 1)	24,000	Purchases of Property, Plant & Equipment (Note 1)	5,20,000
Sale of Non-current Investment (Note 2)	19,000	Purchases of Non-current Investment (Note 2)	44,000
Interest Received	7,000	Interest Paid (Note 4)	24,000
Fund from Operation (Note 5)	5,79,000	Increase in Working Capital (Reconciled)	38,000
	8,89,000		8,89,000

Statement of Changes in Working Capital for the year ended

Particulars	2017 ₹	2018 ₹	Effect on Working Capital	
			Increase	Decrease
Current Assets (A)				
Inventories	2,40,000	2,80,000	40,000	—
Trade Receivables	1,60,000	1,90,000	30,000	—
Cash and Cash Equivalents	70,000	88,000	18,000	—
	4,70,000	5,58,000		
Current Liabilities (B)				
Trade Payables	1,66,000	2,16,000	—	50,000
	1,66,000	2,16,000		
Working Capital (A – B)	3,04,000	3,42,000	—	—
Increase in Working Capital	38,000	—	—	38,000
	3,42,000	3,42,000	88,000	88,000

Working Notes :

(1) Property, Plant and Equipment Account			
Dr.	Particulars	₹	Cr.
	To Balance b/d	17,00,000	
	To Profit and Loss A/c (₹ 24,000 – 20,000)	4,000	
	To Bank A/c (Purchases, balancing figure)	5,20,000	
		22,24,000	
			By Bank A/c
			By Depreciation A/c
			By Balance c/d
			24,000
			1,40,000
			20,80,000
			22,24,000
(2) Non-Current Investment Account			
Dr.	Particulars	₹	Cr.
	To Balance b/d	96,000	
	To Profit and Loss A/c (₹ 19,000 – 16,000)	3,000	
	To Bank A/c (Purchases, balancing figure)	44,000	
		1,43,000	
			By Bank A/c
			By Balance c/d
			19,000
			1,24,000
			1,43,000
(3) Provision for Tax Account			
Dr.	Particulars	₹	Cr.
	To Bank A/c (tax paid balancing figure)	1,88,000	
	To Balance c/d	2,10,000	
		3,98,000	
			By Balance b/d
			By Profit and Loss A/c (provided)
			2,00,000
			1,98,000
			3,98,000
(4) Bank Loan Account			
Dr.	Particulars	₹	Cr.
	To Bank A/c	24,000	
	To Balance c/d	4,60,000	
		4,84,000	
			By Balance b/d
			By Profit and Loss A/c
			By Bank A/c (loan taken) (balancing figure)
			4,20,000
			24,000
			40,000
			4,84,000
(5) Adjusted Profit and loss Account			
Dr.	Particulars	₹	Cr.
	To Property, Plant & Equipment A/c	1,40,000	
	To Provision for Tax A/c	1,98,000	
	To Dividend A/c	75,000	
	To General Reserve A/c	80,000	
	To Interest on Bank Loan	24,000	
	To Balance c/d	2,96,000	
		8,13,000	
			By Balance b/d
			By Property, Plant & Equipment A/c
			By Non-current Investment A/c
			By Interest on Investment A/c
			By Fund from Operations (balancing figure)
			2,20,000
			4,000
			3,000
			7,000
			5,79,000
			8,13,000

Tutorial Note : Accounts with no adjustments are directly treated in Fund Flow Statement or Profit and Loss Account.

Illustration 20

Prepare a Fund Statement of X Ltd. from the following :

Particulars	31.12.2016 (₹)	31.12.2017 (₹)
(1)	(3)	(4)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds :		
(a) Share Capital	12,00,000	16,00,000
(b) Reserves and Surplus :	8,40,000	11,00,000

