

FUND FLOW STATEMENT

B. Com (Hons.) Morning Shift

Subject: Financial Reporting & Financial Statement Analysis

Semester: VI

Section: A

Prepared By: Vinay Kumar Shaw

Fund Flow Statement

Fund flow statement is a statement which shows the sources from which funds are obtained and uses to which fund are put. By fund are generally mean working capital. Thus, fund flow statement is a technical device to explain how the working capital position of an enterprise changes over a period of time generally covering two balance sheet dates. It reveals the amount of fund generated by the firm internally along with the amount of funds raised from various external sources and their various uses during the year.

❑ Objectives of fund flow statement:-

1. “To complete the disclosure of changes in financial position during the period.”

So the fund flow statement is prepared with the objective of knowing :

- A. The volume of fund generated from the operation or depleted of the business during the period generally covering two balance sheet dates,
- B. Different sources from which funds have raised and various uses to which they have been applied during the period,
- C. The impact on the net working capital of the company of transactions having taking place during the year,

2. “To summaries the financial and investing activities of an entity, including the extent to which the enterprise has generated funds from operations during the period.”

❑ Importance of fund flow statement:-

1. **Analysis of financial statement** : Balance sheet gives the still pictures of financial position as on the last date of the accounting year.
2. **Rational dividend policy** : By construction a projected fund flow statement for the forthcoming year, it is possible to have an idea about the future fund position.
3. **Guide to future course of action** : the fund requirement of the firm can be made known in advance from the projected fund flow statement
4. **Judicious allocation of resources** : The projected fund flow statement enables the firm to make plan for optimum allocation of fund.

❑ Drawbacks of fund flow statement:-

1. **Not sufficiently explanatory** : The fund flow statement is not sufficiently explanatory.
2. **Not full proof** : The income statement and balance sheet are susceptible to manipulation and influence not personal judgement exercised by management.
3. **Not relevant** : The fund flow analysis is not that much relevant for decision making as the cash flow analysis.
4. **Structural changes not disclosed** : The fund flow statement does not indicate the structural changes in financial relationship in a firm.
5. **Lack of originality** : The fund flow statement is prepared by re-arranging the figures already provided in the balance sheet and income statement.

Schedule of changes in working Capital

Particulars	Previous Year	Current Year	Effect of working capital	
			Increase	Decrease
Current Assets :				
Cash in hand				
Cash at bank				
Bills receivable				
Sundry Debtors				
Marketable Securities				
Loans and Advance				
Stock				
Prepaid Expenses				
Total (A)				
Current Liabilities :				
Bills Payable				
Sundry Creditors				
Outstanding Expenses				
Advanced Received				
Bank Overdraft				
Short Term Advances				
Proposed Dividend*				
Provision for taxation*				
Total (B)				
Working Capital				
Increase / Decrease in working Capital				

Profit and Loss Adjusted Account

Dr.

Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Depreciation	000	By Balance b/d (as per P/L A/c)	000
To write off :		By profit on sale of fixed assets and investments	000
Goodwill	000	By dividend received	000
Advance Suspense	000	By rent received	000
Preliminary Expenses	000	By fund from operation (Balancing Figure)	000
To loss on sale of fixed Assets and investments	000		
To premium on Redemptions of preferences shares and debentures	000		
To General Expense	000		
To Provision of Tax	000		
To Proposed Dividend	000		
To Interim Dividend	000		
To balance c/d (as per P/L A/c)			
	000		000

Funds flow statement for the year ended.....

Sources	Amount Rs.	Applications	Amount Rs.
1. Trading Profit or funds from operation	***	1. Trading loss or funds lost in operation	***
2. Issue of share capital	***	2. Redemption of preference share capital	***
3. Issue Debenture	***	3. Redemption of debenture	***
4. Raising of long term loans	***	4. Repayment of long term loan	***
5. Sale of fixed assets and investments	***	5. Buy-back of equity shares	***
6. Non-trading receipts e.g., Dividend etc.	***	6. Purchase of fixed assets	***
7. Net Decrease in working capital	***	7. Payments of Dividends*	***
		8. Payment of tax*	***
		9. Net increase in working capital	***

□ The following are the condensed Balanced Sheet of B Ltd. At the end of 31st March, 2018 and 2019.

Balance Sheet

Particulars	Notes No.	31.03.18 Rs.	31.03.19 Rs.
1) EQUITY AND LIABILITIES			
1. Shareholders Fund			
a) Share Capital		2,50,000	3,50,000
I. Equity shares of ₹ 10 each fully paid		1,50,000	1,40,000
b) Reserves and surplus			
2. Non-current liabilities			
a) Long term Borrowings			
I. 6% Debentures		50,000	20,000
b) Long-term provision			
I. Provision for depreciation		80,000	1,00,000
3. Current liabilities			
a) Trade payable		1,16,500	1,33,000
b) Other current liabilities			
I. Outstanding expenses		7,000	15,000
II. Unpaid dividend		-	2,500
c) Short-term provision			
a) Provision for tax		30,000	25,000
b) Provision for bad debt		13,000	18,000
TOTAL		6,96,500	8,03,500

Particulars	Notes No.	31.03.18 Rs.	31.03.19 Rs.
2) ASSETS			
1. Non-current Assets			
a) Property, Plant and Equipment			
I. Land and Building		1,25,000	1,25,000
II. Plant and Machinery		2,40,000	3,60,000
2. Current Assets			
a) Inventory		1,90,000	1,93,000
b) Trade Receivable		86,000	1,05,000
c) Cash and Cash Equivalent		30,500	5,500
d) Other Current Assets – Debenture Issue Expenses		25,000	15,000
TOTAL		6,96,500	8,03,500

Additional information

1. Income tax paid in 2019 was ₹ 35,000.
2. An old machine was sold for ₹44,000, the cost and written down value of which was ₹60,000 and ₹ 40,000 respectively.
3. Bonus shares at 2 for every 5 equity shares were issued out of accumulated reserve is surplus.
4. Out of the proposed dividend of ₹32,500 for 2018 only ₹30,000 were paid in 2019 and in addition to that an interim dividend for ₹25,000 was paid in the same year.
5. Debenture Interest paid ₹3,000.

Prepare Fund flow statement and statement of changes in working capital of the company
For the year ending 31.12.2019.

□ Solution :-

Statement showing changes in working Capital

Particulars	Previous Year	Current Year	Effect of working capital	
			Increase	Decrease
Current Assets :				
Inventory	1,90,000	1,93,000		
Trade Receivable	86,000	1,05,000	3,000	
Cash in hand and at Bank	30,500	5,500	19,000	25,000
Total (A)	3,06,500	3,03,500		
Current Liabilities :				
Sundry Creditors	1,16,500	1,33,000		16,500
Outstanding Expenses	7,000	15,000		8,000
Provision for Bad Debt	13,000	18,000		5000
Total (B)	1,36,5000	1,66,000		
Working Capital	1,70,000	1,37,500	32,000	
Decrease in working Capital		32,000		
	1,70,000	1,70,000	54,500	54,500

B Ltd.

Funds flow statement for the year ended 31.12.08

Sources	Amount Rs.	Applications	Amount Rs.
Fund flow operation	2,26,500	Purchase of Plant & Machinery	1,80,000
Sale of Plant & Machinery	44,000	Payments of Interim Dividend	25,000
Decrease in working capital	32,500	Payment of Dividend	30,000
		Payment of Tax	35,000
		Redemption of 6% debenture	30,000
		Payment on Interest	3,000
	3,03,000		3,03,000

Working Note

Plant & Machinery

1. Dr.

Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance B/d	2,40,000	By Bank	44,000
To Profit on sale of Machinery	4,000	By Provision for Depreciation	20,000
To bank A/c (B. Fig.)	1,80,000	By Balance c/d	3,60,000
	4,24,000		4,24,000

2.

Dr.		Provision for Depreciation A/c		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.		
To Plant & Machinery	20,000	By Balance b/d	80,000		
To Balance c/d	1,00,000	By Reserve & Surplus	40,000		
	1,20,000		1,20,000		

3.

Dr.		Provision for Income Tax A/c		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.		
To Bank	35,000	By Balance b/d	30,000		
To Balance c/d	25,000	By Reserve & Surplus	30,000		
	60,000		60,000		

4.

Reserve & Surplus A/c

Dr.			Cr.
Particulars	Amount Rs.	Particulars	Amount Rs.
To Debenture issue Expenses	10,000	By Balance b/d	1,50,000
To Debenture Interest	3,000	By Profit on sale of Machinery	4,000
To Interim Dividend	25,000	By Fund from Operation	2,26,500
To Provision for Depreciation	40,000		
To Provision for Income tax	30,000		
To Bonus Dividend	1,00,000		
To Dividend	32,000		
To Balance c/d	1,40,000		
	3,80,500		3,80,500