

Fundflowstatement

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Many changes take place in the assets, equities, revenues and expenses in the course of business operations. These changes in an asset or an equity account or in revenue or an expenses account over a period of time can be examined and presented in the form of a flow statement.

The funds flow statement describes the sources from which additional funds were derived and the uses to which these funds were put.

The funds flow statement is denoted by various titles, such as a statement of sources and application of funds, statement of changes in working capital, got and to statement and statement of resource provided and applied.

Objectives of funds flow statement

1. To help to understand the changes in assets and asset sources which are not readily evidence in the income statement or the financial position statement.
2. To inform as to how the loan to the business have been used.
3. To point out the financial strengths and weaknesses of the business
4. Indication of financial results
5. Emphasis on significant changes
6. Revealing financial strength and weaknesses
7. Distinguishing internal and external sources
8. Giving prominence to dynamic concept of business

Classification of balance sheet items

- ✓ Noncurrent liabilities
- ✓ Current liabilities
- ✓ Noncurrent assets
- ✓ Current assets

✓ Non Current liabilities

These liabilities are not required to be payable within a year and out of current assets. These liabilities are generally payable either in the long period or at the close of the business

Equity share
capital Pref. share
capital Debentures
Long term
loans Profit and loss
share/c Share
premium Share for
future Capital reserve

✓ Current liabilities

Current liabilities are payable within a year and out of current assets. The values of these liabilities change within one year.

Sundry creditors Bank
overdraft Outstanding
expenses Income tax
payable Bills payable

✓ Non-current assets

These assets are obtained in business for use over a long period of time for earning purpose. These assets are not purchased for the purpose of selling and include tangible, intangible and fictitious assets.

Building
Land

Plant and machinery
Furniture and fixtures
Patents
Trade
Mark
Preliminary expenses

Current assets

Current assets are easily converted into cash. These assets are reasonably expressed to be realized in cash or sold or consumed within a year.

Cash in hand
Cash at bank
Marketable securities
Debtors
Bills receivables
Stock
Advance
Accrued incomes
Prepaid expenses

Preparation of funds flow statement

1. Statement of changes in working capital
2. Funds flow statement
3. Funds from operations
4. Adjusted profit and loss account

Statement of changes in working capital

A statement showing the complete details for the contribution of each item of current assets and current liabilities is called a 'schedule of changes in working capital'.

The following are important principles for preparation of working capital statement.

$$\begin{aligned}
 & \text{Increase in current assets} - \text{Increase in working capital} \\
 & \text{Decrease in current assets} - \text{Decreases in working capital} \\
 & \text{Increase in current liability} - \text{Decreases in working capital} \\
 & \text{Decrease in current liability} - \text{Increase in Working capital}
 \end{aligned}$$

Schedule of changes in W.C

Particulars	Year	Year	Changes in W.C	
	(Rs.)	(Rs.)	Increase	Decrease
Current assets				
Cash				
Bank balance				
Stock				
Sundry debtors				
Trading investment				
Prepaid expenses				
Bills receivables				
Total(A)				
Less: Current Liabilities				
Creditors				
Bills payable				
Outstanding expenses				
Short term loans				
Bank overdraft				
Total(B)				
Working Capital (Increase/Decrease)				
(A-B)				
Net working capital				

Funds from operation

Funds are generated from the regular operation of an enterprise or applied to such operation are known as funds from operation. It can be calculated by adding non-operating expenses and deducting non-operating income from the net profit.

If the net amount is positive it is called fund from operation and if it is negative it is called fund lost from operations.

Adjusted profit and loss account

Particulars	Rs.	Particulars	Rs.
To depreciation	Xxx	By Balance b/d	Xxx
To loss on sale of fixed assets	Xxx	By Profit on sale of fixed assets	Xxx
To loss on sale of investment	Xxx	By Profit on sale of investment	Xxx
To goodwill written off	Xxx	By income from investment	Xxx
To discount on issue of shares	Xxx	By income tax refund	Xxx
To provision for tax	Xxx	By Funds from operations (Bal. fig)	
To proposed dividend	xxx		
To balance c/d			

Adjusted profit and loss account

Particulars	Rs.	Rs.
Net profit for the year	Xxx	Xxx
Add: Non Operating Expenses	Xxx	Xxx
Depreciation on fixed assets	Xxx	
Loss on sale of fixed assets	Xxx	
Loss on sales of investment	Xxx	
Goodwill written off	Xxx	
Discount on debentures written off	Xxx	
Provision for tax	Xxx	
Proposed dividend	Xxx	
Less: Non Operating Incomes	Xxx	
Profit on sale of fixed assets	Xxx	
Profit on sale of investment	Xxx	
Income from investment		
Income tax refund		

Dividend Received Funds from operation		
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Adjusted profit and loss account

Net profit = Closing balance of P&L A/c – Opening Balance of P&L A/c

Treatment of provision for taxation

Provision for tax may be taken as current liability

Provision for tax may be taken only as an appropriation of profit

Treatment of proposed dividend

Proposed dividend may be

taken as a current liability
Proposed dividend may be derived from appropriation of profits.

Funds flow statement

Sources of Funds	Rs.	Applications or Uses of funds	Rs.
a) Internal sources	Xx	Purchase of fixed assets	Xx
Funds from operations	Xx	Purchase of long term investment	Xx

b) External	Xx	Redemption of preference shares	Xx
Sources	Xx	edemption of	Xx
Issue of equity	Xx	debentures	Xx
shares	Xx	Repayment of long	Xx
Issue of preference shares	Xx	term loans	Xx
Is	Xx	Payment of dividend	Xx
sue of debentures	Xx	Payment of tax liability	Xx
Public	Xx	O	Xx
deposits	Xx	utflow of funds	Xx
Long term	Xx		
loans	Xx		
Sale of fixed assets			
Sale of long term investment			

Cash flow statement

Cash flow includes cash inflows and out flows-cash receipts and cash payments during a period. Movements of cash are of vital importance to the management. The short term liquidity and short term solvency positions of a firm are dependent on its cash flows.

A cash flow statement is a statement which reflects the changes in the cash position between two accounting periods. The detailed analysis provided in such a statement a clear insight to the management about the different sources of cash inflows and the different uses or applications for which cash is required. It helps in taking short term financial decision and also in the preparation of cash budget for the next period.

Cash flow statement can be defined as a statement which summaries the sources of cash inflows and uses of cash outflows of a firm during particular period of time, say a month or a year.

Such a statement can be prepared from the data made available from comparative balance sheets, profit and loss accounts and additional information's.

Advantages

1. It helps to evaluate the current cash position of the firms
2. It helps in making short term financial decisions relating to liquidity
3. It shows the major sources and uses of cash
4. It helps in taking loan from banks and other financial institutions.
5. It helps the

management in planning the repayment of loans, replacement of assets, credit arrangements, etc.

Cashflow(as per Accounting Standard 3)

Particulars	Amount(Rs.)	Amount(Rs.)
<u>1) Cashflow from operating activities</u>		
Net Profit	xxx	
Adjustments		
Non Operating Expenses	xxx(
Non Operating Income	xxx)	
Operating profit before Working capital changes In	xxx(
crease in Current Asset	xxx)	
Decrease in Current Asset In crea	xxxx	
se in Current	xx	
Liabilities Decrease in Current L	(xxx)	
iabilities		
	xxx(
Cash generated from operation I	xxx)	
ncome tax paid		
	xxxx	
Cash flow from extraordinary item Ot	xx	
her proceeds		
		xxx
Net cash flow from operating activities		

<u>2) Cashflowfrominvestingactivities</u>		
Purchase of fixed		
assetsSale of fixed	(xxx)	
assetsInterestreceivedD	xxxx	
ividend received	xx	
Net cashflowfrominvesting activities		xxx
<u>3) Cashflowfromfinancingactivities</u>		
Issue of	xxx	
sharesIssueofdebe	xxx(
ntures	xxx)	
Redemption of	(xxx)	
sharesRedemptionofdebe	(xxx)	
nturesInterestpaid	(xxx)	
Dividendspaid		
		xxx
Net cashusedinfinancing activities		xxx
Cashandcashequivalentatbeginningofperiod		
Cashandcashequivalent at endoftheperiod		

		XXX

Cash inflow transactions

1. Cash from operations
2. Increase of all current liabilities
3. Raising of long term loan
4. Sale of fixed assets and long-term investments
5. Decrease of all current assets.
6. Issue of shares and debentures

Cash Outflows

1. Cash lost in operations
2. Payment of cash dividends
3. Drawing of a partner
4. Redemption of preference share and debentures
5. Purchase of fixed assets and long term investment
6. Decrease of all current liabilities
7. Repayment of long term loans
8. Payment of taxes
9. Increase of all current assets

UTILITY OF CASH FLOW STATEMENT

Utility of cash flow statements are as follows:

1. To identify the reasons for the reduction or increase in the cash balances irrespective of the profits earned by the firm.
2. It facilitates the management to maintain an appropriate level of cash resources. It guides the management to take futuristic decisions on the prospective demands and supply of cash resources through projected cash flows.
3. How much cash resources are required?
4. How much cash requirements could be internally settled?

5. How much cash resources are to be raised through external sources?
6. Which type of instruments is going to be floated for raising the required resources?
7. It helps the management to understand its capacity at the moment of borrowing for any further capital budgeting decisions.
8. It paves way for scientific cash management for the firm through maintenance of appropriate cash levels i.e. optimum level of cash resources.
9. It avoids in holding excessive or inadequate cash resources through proper planning of cash resources.
10. It moots control through identification of variations occurred in the cash expenses and expenditures.

Cash flow statement vs Fund flow statement

Cash flow statement	Fund flow statement
Cash inflow and outflow are only considered	Increase or decrease in the working capital is registered
Causes & changes of cash position	Causes & changes of working capital position
Considers only most liquid assets pertaining to cash resource ; which fosters only for very short span of planning	Considers in general i.e current assets ; the duration of the liquidity of the current assets are longer in gestation than the liquid assets ; which paves way for long span of planning
Opening and closing balances of cash resources are considered for the preparation	Increase or decrease of working capital is considered but not the opening and closing balance for preparation
The flow in the statement means real cash flow	The flow in the statement need not be real cash flow