

## UNIT 2

### FUND FLOW STATEMENT

#### Step 1

Preparation of  
Working capital  
Statement

#### Step 2

Fund from  
Operation

#### step 3

Fund flow  
statement

Particulars	Pre year	Current year	Increase	Decrease
<p><b><u>Current assets</u></b></p> <ul style="list-style-type: none"> <li>• Cash/bank</li> <li>• Debtors</li> <li>• Bills receivable</li> <li>• Prepaid expenses</li> <li>• Outstanding income</li> <li>• Stock</li> <li>• Short term investment</li> </ul> <p><b><u>Total current asset –A</u></b></p> <p><b><u>Current liabilities:</u></b></p> <ul style="list-style-type: none"> <li>• Bank overdraft</li> <li>• Creditors</li> <li>• Bills payable</li> <li>• Prepaid income</li> <li>• Outstanding expenses</li> <li>• Provision for taxations (Without adjustments)</li> </ul> <p><b>Total current liabilities – B</b></p> <p>A-B = C    <b>Working capital</b></p> <p>Net increasing or decreasing working capital</p>				

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Hint: increase 1<sup>st</sup> and 4<sup>th</sup> column

Hint: decrease 2<sup>nd</sup> and 3<sup>rd</sup> column

### **STEP 1: preparation of working capital statement**

1. Increase in current Assets ----- Increase in working capital
2. Decrease in current Assets ----- Decrease in working capital
3. Increase in current liability ----- Decrease in working capital
4. Decrease in Current liability ----- Increase in working capital.

### **Step 2: Fund from operation or adjusted P&L A/C**

**Hints:** Current assets/ current liabilities, Gross profit, Expenses

The above are not included in funds from operation account.

#### **Fund from operation or adjusted P&L A/C**

To preliminary expenses/miscellaneous rent expenses/Good will/ pattern rights/ bad debts written off	<b>XXX</b>	<b>BY balance b/d(opening balance)</b>	<b>XXX</b>
		By dividend received	<b>XXX</b>
To Transfer to general Reserve/ sinking fund	<b>XXX</b>	By interest on investment	
		By profit on sale of fixed assets/investments	<b>XXX</b>
To loss on sale of fixed assets/long term investments	<b>XXX</b>	By non – trading investments	<b>XXX</b>
To depreciation written off.	<b>XXX</b>		
To Discount- (issue of debenture/ share)written off	<b>XXX</b>	By value appreciation of fixed assets	
			<b>XXX</b>
To provision for taxation paid		By income tax refund	

To proposed dividend/ interim dividend paid	XXX	By <b>Fund from operation</b> (balancing figure)	XXX
	XXX		XXX
<b>To balance c/d (closing Balance)</b>	XXX		

### STEP 3: FUND FLOW STATEMENT

SOURCES	Rs	APPLICATION	Rs
<ul style="list-style-type: none"> <li>● <b>Funds from operation</b></li> <li>● Issue of share/ debenture</li> <li>● Long term loan borrowed</li> <li>● Sale of fixed assets/ investments</li> <li>● <u>Non – trading income</u> Interest recd on investment Dividend received Rent received</li> <li>● Decrease in working capital</li> </ul>		<ul style="list-style-type: none"> <li>● <b>Funds lost in operation</b></li> <li>● Redemption of share/ debenture</li> <li>● Repayment of long term loans</li> <li>● Purchase of fixed assets/invest</li> <li>● Drawings amount</li> <li>● <u>Non – trading payment</u> Interest paid Dividend paid Tax paid</li> <li>● Increase in working capital</li> </ul>	

## Cash flow statement (as per accounting standard -3)

Particulars	Rs	Rs
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net profit before tax		XXX
<b>Add: NON – CASH AND NON OPERATING EXPENSES:</b>		
• preliminary expenses/miscellaneous expenses/Good will/ pattern rights/ bad debts written off	XXX	
• Transfer to general Reserve/ sinking fund	XXX	
• loss on sale of fixed assets/long term investments	XXX	
• Depreciation written off.	XXX	
• Discount- (issue of debenture/ share)written off	XXX	
• Provision for taxation paid	XXX	
• Proposed dividend/ interim dividend paid	<u>XXX</u>	
<b>LESS:</b>		XXX
• Rent, dividend received	XXX	
• Interest on investment	XXX	
• Profit on sale of fixed assets/investments	XXX	
• Non – trading investments	XXX	
• Value appreciation of fixed assets	XXX	
• Income tax refund	XXX	
<b><u>Operating profit before working capital changes/ cash trading profit</u></b>		XXX XXX

<b>Add:</b>	XXX	
INCREASE IN Current Liabilities	<u>XXX</u>	
	XXX	
DECREASE IN Current Assets	XXX	
<b>Less:</b>		
INCREASE IN Current Assets	<u>XXX</u>	
DECREASE IN Current Liabilities		
<b>Net cash from operating activities (or) Cash from operations - A</b>		
<b>B. Cash flow from investing activities:</b>		
<b>Add :</b>	XXX	<u>XXX</u>
Sale of fixed asset	XXX	
Sale of investment	XXX	
Interest received	XXX	
Dividend received	<u>XXX</u>	
<b>Less :</b>		
Purchase of fixed asset	XXX	
Purchase of investment	<u>XXX</u>	
<b>Net cash from investing activities – B</b>		
<b><u>c. Cash flow from financing activities:</u></b>		
<b>Add :</b>	XXX	
Issue of share capital	<u>XXX</u>	<u>XXX</u>
Long term borrowings		
<b>LESS:</b>	XXX	
Payment of long term borrowings	XXX	
Dividend paid	XXX	
Drawings	<u>XXX</u>	
<b>Net cash from financing activities –C</b>		
<b>A + B +C = Net increase or decrease in cash</b>		

ADD: cash at the beginning of the period (opening balance)		<u>XXX</u>
Cash at the end of the period(closing balance) B/F		<u>XXX</u>
		<u>XXX</u>
		<u>XXX</u>

## UNIT 2 FUND FLOW STATEMENT

### 1. What is fund flow statement?

The fund flow statement is a report on the movement of funds or working capital. It explains how working capital is raised and used during an accounting period.

### 2. Write any 2 advantages of fund flow statement?

- |   |                                  |
|---|----------------------------------|
| 1. Analysis of financial operations.<br>management. | 4. Helps in working capital      |
| 2. Evaluation of the firm's financing.              | 5. Acts as a guide to future     |
| 3. Allocation of scarce resources.                  | 6. Helps financial institutions. |

### 3. How to prepare fund flow statement?

Funds flow statement is usually prepared for one year on the basis of balance sheets and additional information. Preparation of funds flow statement involves the following steps;

- Schedule of changes in working capital.
- Opening of accounts for non-current items.
- Preparation of adjusted profit and loss account.
- Preparation of funds flow statement.

### 4. What is fund from operation?

It is the only internal source of funds. All the non-operating expenses and non-operating incomes should be adjusted in the net profit to ascertain funds from statement.

## CASH FLOW STATEMENT

### 5. What is cash flow statement?

Cash flow statement is an important tool of cash planning and control. A statement prepared from the historical data (i.e., income statement and balance sheet) showing sources and uses of cash is called cash flow statement. It reveals the inflow and outflow of cash during the particular period.

## **6. What is cash from operation?**

Cash from operation is a source of cash. It reveals cash generated from routine (or) normal business operations.

# **WORKING CAPITAL ANALYSIS**

## **7. What is meant by working capital?**

. Working capital refers to that part of a firm's capital which is employed for short-term operations. Capital required for purchase of raw materials, and for meeting the day-to-day expenditure on salaries, wages, rents advertising etc., is called working capital.

## **8. Write the types of working capital?**

- Permanent (or) fixed working capital.
- Temporary (or) variable working capital.

## **9. List out current liabilities?**

- |                     |                            |
|---------------------|----------------------------|
| 1. Bank overdrafts. | 4. Prepaid income.         |
| 2. Creditors.       | 5. Outstanding expenses.   |
| 3. Bills payable.   | 6. Provision for taxation. |