



SNS COLLEGE OF TECHNOLOGY

(An Autonomous Institution)



FUND FLOW STATEMENT



Introduction



- The balance sheet and profit and loss account provide significant information about the firm to the owners, management, and investors, but these financial statements do not provide other useful information required by the management for decisions making.
- Funds flow statement is a summary of increases or decreases in working capital over a period of time.
- This is a statement of changes in the financial position that summarizes the period covered by it, the changes in the financial position including the sources from which funds were obtained by the enterprise, and the specific uses to which such funds were applied.
- Here, the term 'fund' does not mean cash. It is generally used to denote the difference between current assets and current liabilities i.e. working capital.



Fund flow



- The term 'flow of funds' refers to a change in working capital.
- The increase or decrease in working capital will take place only if the affected account in a transaction is a current account i.e. current assets or current liabilities and the other account is a non-current account i.e. fixed assets or long-term liabilities.
- When a change in a non-current account is followed by a change in another non-current account, it does not amount to a change in the flow of funds.
- When a change in the current account results in a change in other current accounts, it does not amount to a change in the flow of funds.
- From the above discussion, it is concluded that a transaction will cause a net flow of funds only when one of the accounts affected is a current account and another is a non-current account.



Sources of Funds



- Sources of Funds: The sources of funds can be classified as external sources and internal sources. External sources of funds refer to sources of funds from outside the business.
- These are: (a) raising additional capital, (b) increasing long-term borrowings, and (c) sale of fixed assets and long-term investments.
- Internal sources consist of funds that are generated internally by the organization. Every profitable sale brings in funds to the extent of the excess of sales revenue over the cost of goods sold. Such profits, called funds from operation, are also important internal sources of funds.

Uses of Funds

- Uses of funds thus are (i) purchase of fixed assets or long-term investments, (ii) redemption of debentures and preference shares, (iii) repayment of long-term loans, (iv) payment of dividends (v) meeting losses from operations (net loss), and (vi) financing the increase in working capital.



Fund Flow Statement



- The fund flow statement (FFS) is intended to explain the magnitude, direction, and causes of changes in the position of funds (net working capital) that took place during the two balance sheet dates.
- Thus, it highlights the basic changes in the financial structure, asset structure, and the liquidity position of a business between two balance sheet dates.
- But primarily, it reveals changes in the financial position of the company by identifying the sources and application of funds resulting from financing and investing decisions that took place during a particular period.



Preparation of FFS



The preparation of a fund flow statement involves essentially the following three steps:

- 1) Schedule of Changes in Working Capital.
- 2) Statement of Funds from Operations.
- 3) Preparation of the Funds Flow Statement (on a working capital basis).



1. Schedule of change in working capital

- The first step in the preparation of the fund flow statement is to prepare the schedule of changes in working capital.
- For this purpose, all non-current items are to be ignored as the net working capital is simply the difference between current assets and current liabilities.

Particulars	Previous Year	Current Year	increase	Decrease
Current Assets:				
Cash in Hand		
Cash at Bank		
Marketable Securities		
Bill Receivable		
Sundry Debtors		
Temporary Investment		
Stock/Inventory		
Prepaid Expenses		
Accrued Incomes		



2. Statement of funds from operation

- Certain items charged and revenues earned actually do not involve any flow of funds during the current period.
- Similarly, certain deferred revenue expenses written off like preliminary expenses, discount on the issue of shares, etc. do not involve any outflow of funds.
- Hence, these items are added back to the net profit in order to arrive at the amount of funds from operations.
- Also, there are certain non-operating incomes and expenses like profit or loss on the sale of fixed assets, dividend from investment, etc. are taken into account to arrive at the net operating results of the business.
- The profit or losses arising out of these transactions are not regular operations of the business. Hence, the effect of these items must not be taken into account while preparing funds from operations, i.e., the profit on such items is to be excluded from the net profit and loss must be added back to the net profit to ascertain the amount of funds from operations. There are many items that are charged and credited to the profit and loss account but do not affect working capital. Hence, all such items need adjustment to calculate funds from operations.





2. Statement of funds from operation- Example:

Calculate the Funds from Operation from the following Balance Sheet of Vikas Ltd.

Particulars	Amount as on 31-03-2020	Amount as on 31-3-2021
Profit and Loss A/c	50,000	65,000
General Reserves	35,000	42,500
Goodwill	15,000	7,500
Preliminary Expenses	9,000	6,000
Provision for Depreciation	15,000	18,000
Provision for Doubtful Debts	617	2,160

Computation of Funds from Operation

Particulars	Amount in Rs.	Amount in Rs.
Net Profit as per Profit and Loss A/c		15,000
Add: Non Funded Items:		
General Reserves (42,500- 35,000)	7,500	
Goodwill written off (15,000- 7,500)	7,500	
Preliminary Expenses (9,000 – 6,000)	3,000	
Provision for Depreciation 18,000 -15,000)	3,000	21,000
		36,000



3. Statement of Sources and application of funds

- The objective of the Fund Flow statement is to analyze the causes for the net increase or decrease in working capital as shown by the schedule of working capital changes.
- This statement is prepared on the basis of changes in fixed assets, long-term liabilities, and capital because these are the only items left on the balance sheet after preparing the schedule of working capital changes.
- This statement has two parts i.e. (i) Sources of funds; and (ii) Uses or application of funds.
- The difference between these two parts i.e. sources and uses of funds represents net changes in working capital.
- The amount of net increase or decrease as shown in the fund flow statement should be equal to the amount shown by a schedule of working capital changes

Sources of Funds	Amount	Uses of Funds	Amount
(i) Funds from operations	(i) Loss from operations
(ii) Issue of shares	(ii) Redemption of shares
(iii) Issue of debentures	(iii) Redemption of debentures
(iv) Raising long-term loan	(iv) Repayment of long-term loan
(v) Sale of fixed assets	(v) Purchase of fixed assets
(vi) Decrease in working capital (if any)	(vi) Payment of Dividend
		(vii) Payment of Taxes
		(viii) Increase in working capital



THANK YOU