



# FUND FLOW STATEMENT



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## INTRODUCTION

Fund in this chapter means working capital.

If current assets of a company are more than its current liabilities, it is called working capital and working capital's other name is Fund.

$$\text{Fund} = \text{Working capital} = \text{Current assets} - \text{Current liability}$$

The term "flow of funds" means "Transfer of economic values from one asset to another and one liability to another." Flow of fund takes place whenever there is change in working capital. This change may be either inflow or outflow of funds.

For example,

- Fixed asset changes into current asset or current asset changes into fixed assets.
- Fixed liability changes into current liability or current liability changes into fixed liability.
- Any transaction which attracts one current account and one non-current account then only it is flow of fund.

Funds flow statement is a method by which we study changes in the financial position of a business enterprise between beginning and ending financial statement dates. It is a statement showing sources and uses of funds for a period of time.

Examples of Current Assets are:

- Cash in hand
- Cash at bank
- Bills receivables
- Stock
- Debtors
- Prepaid expenses
- Accrued income
- Marketable securities

Examples of Current Liabilities are:

- Bills payable
- Creditors
- Outstanding expenses
- Advance income

There is a direct relation between current assets and working capital. When current assets increase, working capital also increases. When current assets decrease, working capital also decreases.

There is an inverse relation between current liabilities and working capital. When current liabilities increase, working capital decreases. When current liabilities decrease, working capital increases.

Increase in working capital is application (or use) of fund whereas decrease in working capital is source of fund.

## STEPS FOR PREPARATION OF FUND FLOW STATEMENT

### 1. To prepare statement of changes in working capital

It is very necessary to make statement of changes of working capital. Because net increase in working capital is use of fund and net decrease in working capital is source of fund.

We take two balance sheets; one is current year balance sheet and other is previous year balance sheet. Then we separate current assets and current liabilities.

Working Capital increase/decrease when	Change in current assets or current liabilities
Increase working capital	<ul style="list-style-type: none"> <li>• Increase in current assets</li> <li>• Decrease in current liabilities</li> </ul>
Decrease in working capital	<ul style="list-style-type: none"> <li>• Decrease in current assets</li> <li>• Increase in current liabilities</li> </ul>
No change in working capital	<ul style="list-style-type: none"> <li>• Realisation from debtors/Bills Receivable</li> <li>• Payment to creditors/Bills Payable</li> <li>• Goods sold on credit</li> <li>• Goods purchased on credit</li> </ul>

### Statement of changes in working capital

Particulars	Previous Year	Current Year	Effect on Working Capital	
			Increase	Decrease
Current Assets:				
Cash in hand	xxxx	xxxx		
Debtor	xxxx	xxxx		
Inventory	xxxx	xxxx		
Bills Receivable	xxxx	xxxx		
<b>Total Current Assets (A)</b>	xxxx	xxxx		
Current Liabilities:				
Trade Creditors	xxxx	xxxx		
Bills Payable	xxxx	xxxx		
<b>Total Current Liabilities (B)</b>	xxxx	xxxx		
<b>Total Working Capital (A-B)</b>	xxxx	xxxx		
<b>Change in Working Capital</b>	xxxx	xxxx		
<b>Total</b>	xxxx	xxxx	xxxx	xxxx

## 2. Ascertain the funds from operation

Fund from operation is required for preparation of fund flow statement for source of fund side. It can be shown on application of fund side when there is negative fund from operation. Operation means business activity and fund from operation means profit from business activity.

### Statement of Funds from operations for the \_\_\_\_\_

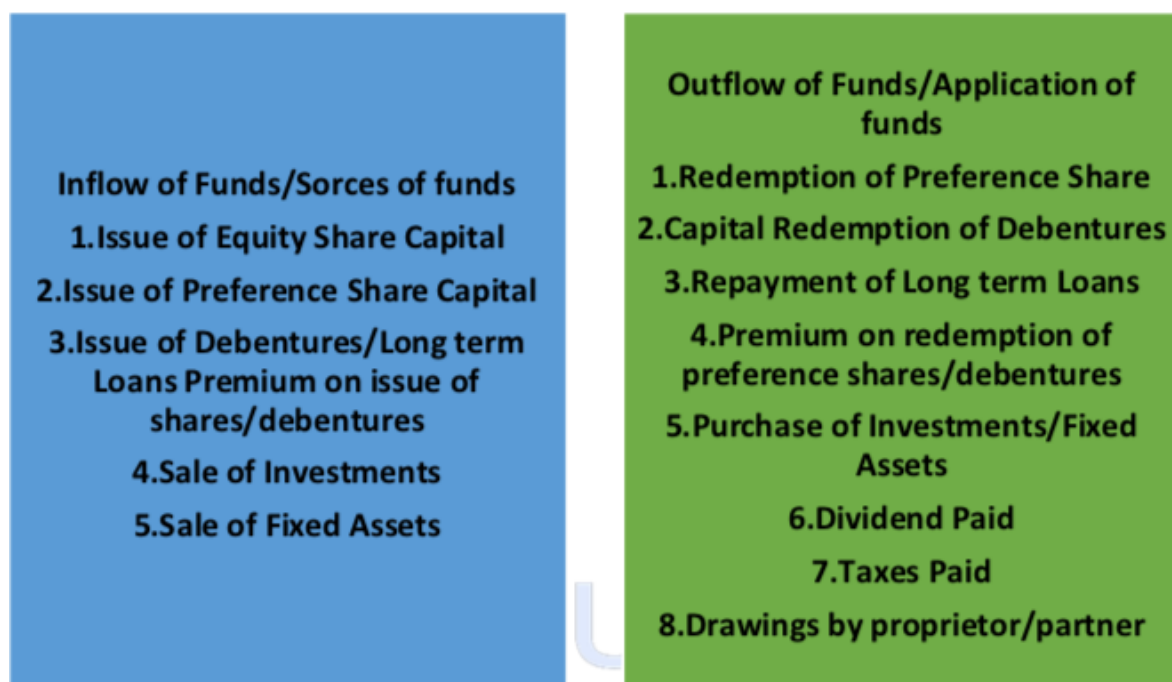
<i>Particulars</i>	₹	₹
Net Profit after tax for the year		XXX
<i>Add: Non-Current/Non-Operating Expenses (E.G.)</i>		
Depreciation	XX	
Loss on Sale of Fixed Assets	XX	
Interest on Debentures	XX	
Goodwill Written Off	XX	
Provision for Tax	XX	
Proposed Dividend	XX	
Interim Dividend	XX	
Transfer from Statement of Profit & Loss (Profit & Loss Account)	XX	
Other Non-Current & Non-Operating items debited	XX	XXX
<i>Less: Non-Current &amp; Non-Operating Incomes (e.g.)</i>		
Interest on Investment	XX	
Dividend Received	XX	
Profit on Sale of Fixed Assets	XX	
Interest on Bank Deposit	XX	
Refund of Tax	XX	
Other Non-Current & Non-Operating items credited	XX	XXX
<b>Net Fund Flow From Operation</b>		<b>XXX</b>

Alternatively, adjusted profit and loss account can also be prepared.

Particulars	\$	Particulars	\$
To balance b/d (opening balance of loss)	*****	By balance b/d (opening balance of profit)	*****
To depreciation (or depletion) on fixed assets	*****	By profit on sale of fixed assets	*****
To goodwill written off	*****	By profit on sale of long-term investments	*****
To preliminary expenses written off	*****	By dividend received	*****
To discount on shares and debentures written off	*****	By transfer from excess provision	*****
To transfer to general reserve	*****	By refund of tax	*****
To patents, trademarks, written off	*****	By funds from operations (bal. figure)	*****
To dividend	*****	By balance c/d (closing balance of loss)	*****
To premium on redemption of shares	*****		*****
To loss on sale of fixed assets	*****		*****
To provision for taxation	*****		*****
To funds lost in operations (bal. fig)	*****		*****
To balance c/d (closing balance of profit)	*****		*****
<b>Total</b>	<b>*****</b>	<b>Total</b>	<b>*****</b>

### 3. Preparation of fund flow statement

While preparing the funds flow statement, the sources and uses of funds are to be disclosed clearly so as to highlight the sources from where the funds have been generated and the uses to which these funds have been applied. This statement is also sometimes referred to as sources and applications of funds statement.



Sources of Funds	\$	Application of Funds	\$
Issue of share capital (both equity and preference)	*****	Redemption of preference shares	*****
Issue of debentures	*****	Redemption of debentures	*****
Amount raised through long-term loans	*****	Repayment of loans	*****
Sale of fixed assets	*****	Purchase of fixed assets purchased for consideration (other than shares, debentures, or long-term debt)	*****
Sale of investment	*****	Purchase of long-term investments	*****
Non-trading income (e.g., income from investments, dividends, etc.)	*****	Payment of interim and final dividends in cash	*****
Fund from operations (trading profit)	*****	Non-trading expenses	*****
(A) Decrease in working capital (as per statement of changes in working capital)	*****	Funds lost in operations	*****
	*****	Payment of taxes	*****
	*****	(B) Increase in working capital (as per statement of changes in working capital)	*****
<b>Total</b>	<b>*****</b>	<b>Total</b>	<b>*****</b>

## DIFFERENCE BETWEEN CASH FLOW AND FUND FLOW STATEMENT

CASH FLOW	FUND FLOW
Cash flow statement based on narrow concept of funds, which considers changes in cash.	Funds flow statement is based on the concept of working capital
Cash flow statement is prepared on cash basis.	Funds flow statement is prepared on accrual basis.
Cash flow statement is more useful in short term analysis and cash planning	Funds flow statement is more useful in long-term analysis of financial planning.
In cash flow statement cash from the operations are calculated after adjusting the increases and decreases in current assets and liabilities.	In funds flow statement such changes in current items are adjusted in the changes of working capital.
Classification of current and non-current is not relevant.	Such classification is required in this case.



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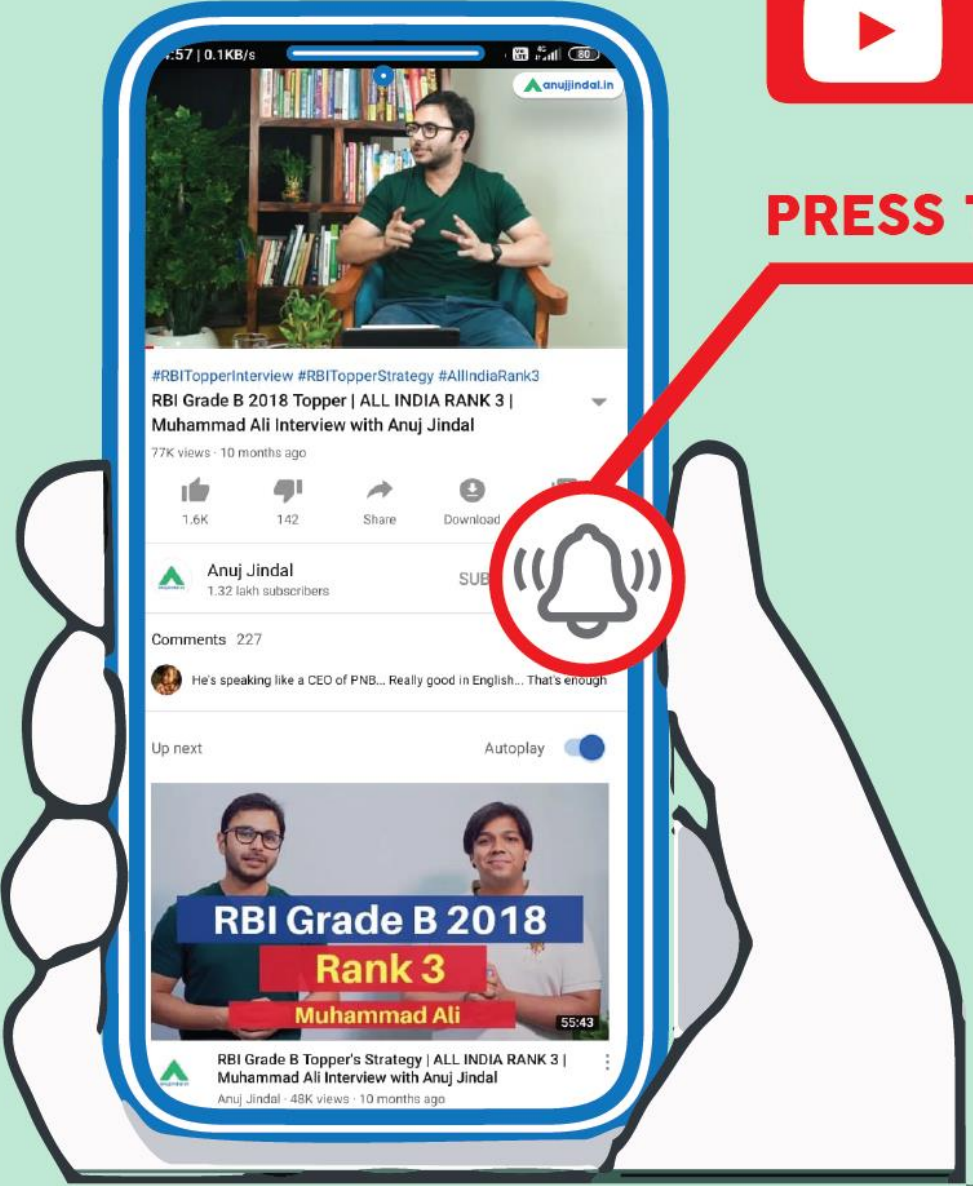


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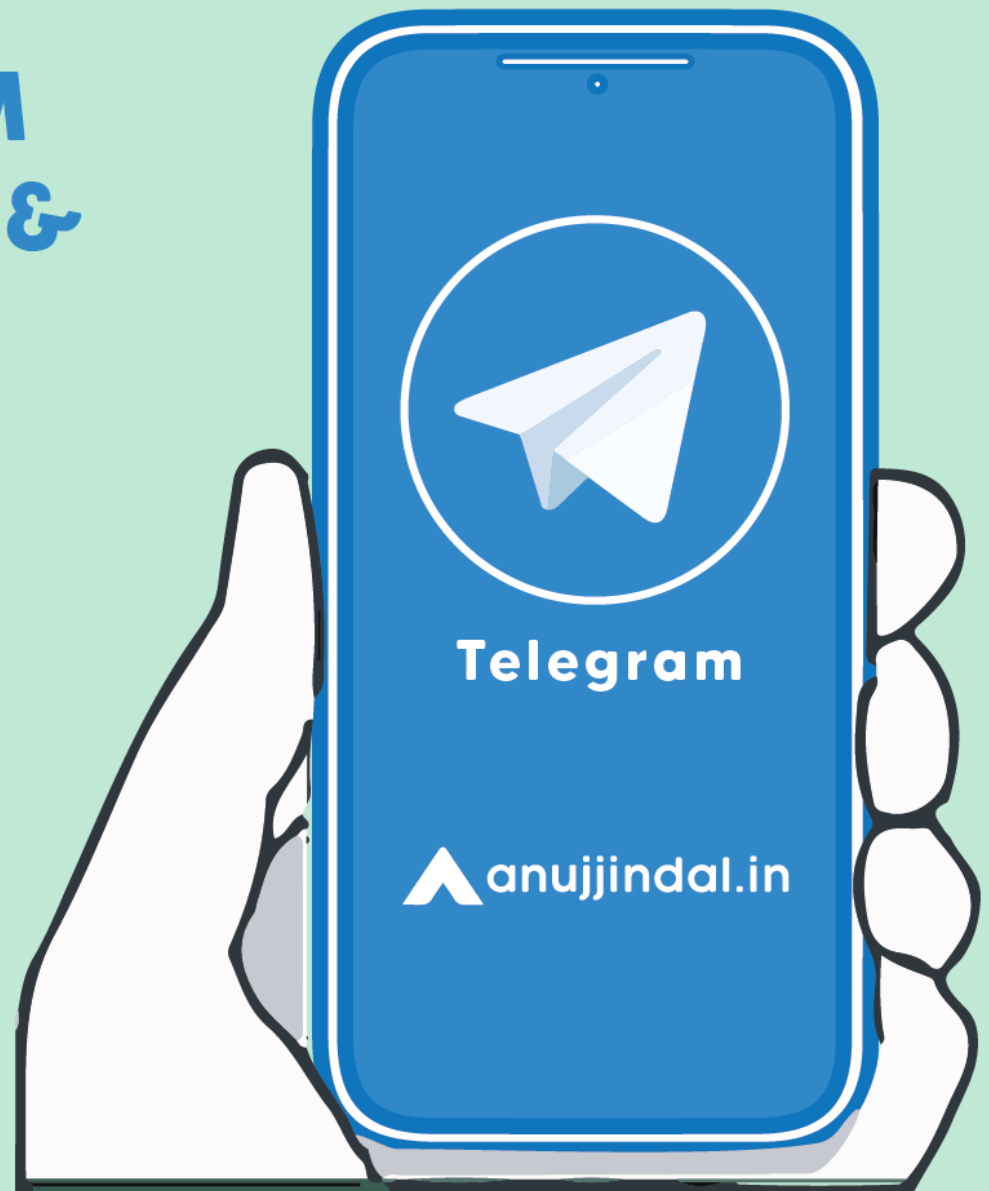


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