

Fund flow statement...

Introduction

- Meaning &Definition
- Meaning of 'Fund' and 'Flow'
- Preparation of Fund Flow Statement
- Essential Sources and Application of Funds
- Significance of Fund Flow Statement
- Limitation of Fund Flow Statement
- Effects of Funds Flow on Working Capital
- Classification of Fund Flow

Introduction and Meaning

Fund flow statement is one of the important management tools for decision making.

- The statement is prepared taking into account revenue statement and position statement of the organization.
- It is a comparative analytical statement between two consecutive years.
- The statement reveals the funds inflow and outflow during an accounting period.
- In order to measure the soundness and solvency of business, preparation of fund flow is a must.

Definitions

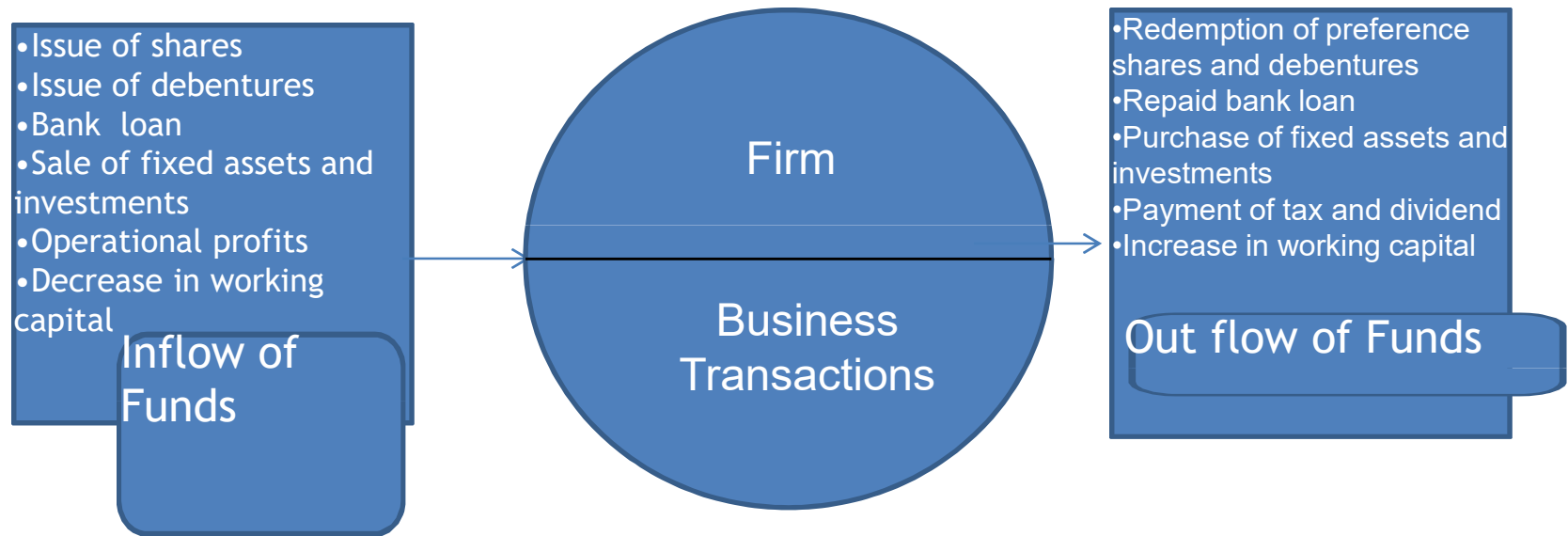
- "The fund statement is an important device for bringing to light the underlying financial movements- the ebb and flow of funds."

- Patton and Patton

- "Funds Flow Statement is prepared to indicate in summary form, changes occurring in items of financial position between two different balance sheet dates."

- Smith and Brown

Movements of Funds



“When liabilities increase, it is a Source of Funds; When assets increase, it is an Application of Funds”.

- Transactions happen among current assets and non-current assets (fixed assets or permanent assets)
- Transactions involving current assets and non-current liabilities (long-term borrowings and capital)
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- Transactions involving current liabilities and non-current liabilities (long term borrowings and capital)

FUNDS FLOW STATEMENT
(STATEMENT OF SOURCES AND APPLICATION OF FUNDS)

<u>Sources of Funds</u>	<u>Amount</u> <u>Rs.</u>	<u>Application of Funds</u>	<u>Amount</u> <u>Rs.</u>
Issue of Equity Shares	----	Purchase of Fixed Assets	----
Issue of Preference shares	----	Purchase of Investments	----
Issue of Debentures	----	Redemption of shares	----
Loan borrowed	- - - -	Redemption of debenture	----
Sale of Fixed Assets	----	Payment of loan	----
Sale of Investments	----	Payment of Tax	----
Non-trading incomes	----	Payment of Dividend	----
Fund from Operation (profit)	----	Non-trading losses	----
Decrease of working capital	----	Increase of working capital	----
		Fund from operation (loss)	----
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Preparation of Fund Flow Statement

- A funds flow statement is prepared on the basis of information contained in the consecutive two years Balance Sheet and that is based on the Profit and Loss Account for the period
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Significance of Fund Flow Statement

- Uses for Working Capital
- Help to Lenders
- Direction for Business
- Analytical Tool
- Design Policies
- Control Device
- Reflect Financial Position
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Limitations of Fund Flow Statement

- It ignores non-fund items.
- It ignores to project future operations.
- It also ignores transactions when they occur between current accounts and non-current accounts.
- This is not ideal tool for financial analysis.
- It does not provide any additional information to the management because financial statements are simply rearranged and presented.
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Effects of Fund Flow on Working Capital

- *Increase in the current assets - Increase in Working Capital*
- *Decrease in the current assets - Decrease in Working Capital*
- *Increase in the current liabilities than - Decrease in Working Capital*
- *Decrease in the current liabilities - Increase in Working Capital*
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