
CHAPTER VI

Analysis of Funds Flow Statement

of Lotus Hospital

6.1 Introduction

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6.1 Introduction

This chapter deals with analysis of funds flow statement of Lotus Hospital.

The balance sheet gives a summary of the assets and liabilities of an undertaking at a particular point of time. It reveals the financial status of the company. The profit and loss account reflects the results of the business operations for a period of time.

The balance sheet gives a static view of the resources (liabilities) of a business and the uses (assets) to which these resources have been put at a certain point of time. It does not disclose the causes for changes in the assets and liabilities between two different points of time. The profit and loss account, in a general way, indicates the resources provided by operations. But there are many transactions that take place in an undertaking which do not operate through profit and loss account. Thus, another statement has to be prepared to show the changes in the assets and liabilities from the end of one period to the end of another period of

time. This statement is called a statement of changes in Financial Position or a Funds Flow Statement.

The Funds Flow Statement is a statement, which shows the movement of funds and is a report of the financial operations of the business undertaking. It indicates various means by which funds were obtained during a particular period and the ways in which these funds were employed. In simple words, it is a statement of sources and applications of funds.

6.2 Preparation Of Funds Flow Statement

While preparing the funds flow statement, individual items of current assets and current liabilities are not shown separately but they are consolidated in a separate statement called 'Schedule of Changes in Working Capital'. Only the net change in the working capital is taken to the funds flow statement. The funds flow statement therefore, comprises of two parts, viz., 'Schedule of Changes in Working Capital' and 'Statement of Sources and Uses of Funds'.

Changes in working Capital	31.3.97	31.3.98	Change As on 31.3.98	31.3.98	31.3.99	Change As on 31.3.99	31.3.00	Change As on 31.3.00
		Rs. Lakhs		Rs.lakhs		Rs.lakhs		Rs.lakhs
Current Assets, Loans & Advances								
a. Cash & Bank	9.2	0.26	-8.94	0.26	3.09	2.83	3.09	4.66
b. Deposits with various Authorities	0.51	14.61	14.1	14.61	10.71	-3.90	10.71	10.71
c. Other Current Assets & Advances	0	9.90	9.9	9.90	9.83	-0.07	9.83	8.86
d. Advances for expenses	0	0.76	0.76	0.76	0	-0.76	0	0
Total (1)	9.71	25.53	15.82	25.53	23.63	-1.90	23.63	24.23
								0.60
Current Liabilities & Provisions								
a. Liabilities	0.22	24.43	24.21	24.43	2.92	-21.51	2.92	1.16
b. Provisions	0	0.10	0.10	0.10	8.79	8.69	8.79	10.48
Total (2)	0.22	24.53	24.31	24.53	11.71	-12.82	11.71	11.64
								-0.07
Working Capital Total (1) - Total (2)	9.49	1.00	-8.49	1.00	11.92	10.92	11.92	12.59
								0.67
Changes in working Capital	31.3.00	31.3.01	Change As on 31.3.01	31.3.01	31.3.02	Change As on 31.3.02	31.3.03	Change As on 31.3.03
		Rs.lakhs		Rs.lakhs		Rs.lakhs		Rs.lakhs
Current Assets, Loans & Advances								
a. Cash & Bank	4.66	8.65	3.99	8.65	13.12	4.47	13.12	23.90
b. Deposits with various Authorities	10.71	10.71	0	10.71	10.55	-0.16	10.55	10.56
c. Other Current Assets & Advances	8.86	13.34	4.48	13.34	13.65	0.31	13.65	18.36
d. Advances for expenses	0	0	0	0	0	0	0	0
Total (1)	24.23	32.70	8.47	32.70	37.32	4.62	37.32	52.82
								15.50

Current Liabilities & Provisions												
a. Liabilities	1.16	2.48	1.32	2.48	3.19	0.71	3.19	3.20	0.01			
b. Provisions	10.48	16.02	5.54	16.02	13.83	-2.19	13.83	23.91	10.08			
Total (2)	11.64	18.50	6.66	18.50	17.02	-1.48	17.02	27.11	10.09			
Working Capital Total (1) - Total (2)	12.59	14.20	1.61	14.20	20.30	6.10	20.30	25.71	5.41			
Changes in working Capital	31.3.03	31.3.04	Change As on	31.3.04	31.3.05	Change As on						
		Rs.lakhs			Rs.lakhs							
Current Assets, Loans & Advances												
a. Cash & Bank	23.9	25.07	1.17	25.07	28.25	3.18						
b. Deposits with various Authorities	10.56	10.55	-0.01	10.55	10.52	-0.03						
c. Other Current Assets & Advances	18.36	15.79	-2.57	15.79	21.68	5.89						
d. Advances for expenses	0	0	0	0	0	0						
Total (1)	52.82	51.41	-1.41	51.41	60.45	9.04						
Current Liabilities & Provisions												
a. Liabilities	3.20	2.57	-0.63	2.57	1.77	-0.80						
b. Provisions	23.91	16.99	-6.92	16.99	16.85	-0.14						
Total (2)	27.11	19.56	-7.55	19.56	18.62	-0.94						
Working Capital Total (1) - Total (2)	25.71	31.85	6.14	31.85	41.83	9.98						

Source :- Audited Financial Statements

The Statement of Changes in Working Capital for the years 1997 to 2005 have been given below:

1. From the above table it can be observed that the working capital has been increasing continuously from 1999 to 2005, i.e. Rs.11.92 lakhs to Rs.41.84 lakhs.
2. The money held in cash and bank is also more and has been increasing. In 1999 it was Rs.3.09 lakhs and in 2005 it was Rs.28.25 lakhs.
3. The Hospital should manage efficiently, with lower working capital.

Table 6.2 Statement of Funds Generated From Operations Rs. In Lakhs

Statement of Funds generated from operations								
	As on 31/3/98	As on 31/3/99	As on 31/3/00	As on 31/3/01	As on 31/3/02	As on 31/3/03	As on 31/3/04	As on 31/3/05
Net profit- After Tax and Dvnd	-3.02	-63.58	-40.17	-3.33	14.04	11.28	4.62	5.82
ADD :								
Depreciation	0	44.97	37.66	29.75	24.68	20.48	16.4	12.08
Preliminary Expenses	0	0.07	0.06	0.07	0.06	0.07	0.06	0.26
Pre-Operative expenses	0	0	0	0	0	0	0	0
	0	0	0	0	0		0	0
	0	0	0	0	0	0	0	0
Total – a	-3.02	-18.54	-2.45	26.49	38.78	31.83	21.08	18.16
LESS:								
Transfer to Dvnd A/C	0	0	0	0	0	0	0	0
Payment to Income Tax A/C	0	0	0	0	0	0	0	0
Profit on sale of Machineries	0	0	0	0	0	0	0	0
Total – b	0	0	0	0	0	0	0	0
Funds generated from operation a-b	-3.02	-18.54	-2.45	26.49	38.78	31.83	21.08	18.16

Source :- Audited Financial Statements

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1. Funds generated from the operations till 2000 were negative due to heavy operational losses.
 2. From 2001 the funds generated from operations showed positive balance, but after 2002 they showed declining trend i.e. Rs.38.78 lakhs in 2002 to Rs.18.16 lakhs in 2005.
 3. The depreciation charges (on reducing balance method) have been heavy in the earlier years, which showed improved cash profits.

Table 6.3 Funds Flow Statements of Lotus Hospital

Funds flow statement of Lotus Hospital (Rs. in Lakhs)								
	As on 31/3/98	As on 31/3/99	As on 31/3/00	As on 31/3/01	As on 31/3/02	As on 31/3/03	As on 31/3/04	As on 31/3/05
Sources								
Funds from operations	-3.02	-18.54	-2.45	26.49	38.78	31.83	21.08	18.16
Share Capital	36.45	38.88	17.61	15.27	9.16	6.31	3.53	0.98
Loans :								
Secured	16.59	118.29	-7.38	-30.5	-35.73	-25.77	-18.02	-5.69
Un-secured	-5.49	11.07	3.99	5.48	6.26	-3.47	2	-2.29
Creditors for Cap Goods	0	13.11	-3.25	-4.44	-2.3	-0.27	0.43	-2.78
Decrease in Working Capital								
Capital	8.49	0	0	0	0	0	0	0
Total	53.02	162.81	8.52	12.3	16.17	8.63	9.02	8.38
Applications								
Fixed Assets	36.37	159.26	15.07	6.75	9.67	4.62	2.76	-1.48
Capital Advances	16.65	-7.37	-7.22	3.94	0.4	-1.4	0.12	-0.12
Increase in Working capital	0	10.92	0.67	1.61	6.1	5.41	6.14	9.98
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
Total	53.02	162.81	8.52	12.3	16.17	8.63	9.02	8.38

Source :- Audited Financial Statements

6.3 Observations

Lotus Hospital took about 5 years to stream line the hospital activities. The observations for this period are as follows:

1. First two years the Company suffered considerable loss and after the Financial year 2000-2001, the Company reduced its accounting loss to Rs.3.33 lakhs and made a cash profit of Rs.26.42 lakhs and raised Share capital of Rs.15 lakhs. With this mobilization, Rs.30.5 lakhs of long-term secured loan was repaid. But unsecured loans went up from Rs. 20 lakhs to Rs.25 lakhs.
2. The Financial year 2001-2002 saw Company making a profit of Rs. 14 lakhs and cash profit was Rs. 30 lakhs and raised share capital of Rs. 9 lakhs. Thus a total of Rs. 39 lakhs funds were generated and Rs. 36 lakhs term loan was repaid. But unsecured loan went up to Rs. 31.4 lakhs.
3. Financial year 2002-2003 was the best so far and Rs.18.74 lakhs of pre-tax profit was made. It declared dividend for the first time (and only time so far) dividend amount was Rs. 6.80 lakhs (Rs. 6.03 lakhs dividend plus 0.77 lakhs dividend tax). In addition it had to pay Income tax of Rs. 0.65 lakhs. Repaid the term of Rs.26 lakhs and unsecured loan was marginally reduced to Rs.28 lakhs.
4. As on 31.3.03, the Company had not paid dividend nor tax thereon amounting to Rs.6.80 lakhs. There was only appropriation in the books of

accounts. This amount being available till payment, it has been shown as funds available in the Funds generated from Operations statement and correspondingly the provision amount has been reduced. This dividend amount has been shown as payment during the Year 1.4.03 to 31.3.04, in the Funds Flow Statement.

5. There is provision for income tax, this being routine liability no special treatment is needed. During 2003-04 the company got a refund of income tax of Rs.0.26 lakhs. All these being current accounts and cash transactions, they have been taken care in a routine manner through provision accounts and no special treatment is needed in the above statements.

6. During financial years 2003-04 and 2004-05 the profits dwindled to Rs.5.17 lakhs and Rs.6.32 lakhs. However, the funds generated from operations were Rs.21 and 18 lakhs respectively and secured term loans of Rs.18 and 6 lakhs were repaid during these years respectively.

7. As on 31.3.2005 the secured long-term loan stood at Rs.11.78 lakhs, but unsecured loan remained at Rs.28 lakhs. During these periods the working capital has been increasing steadily and it stood at Rs.42 lakhs as on 31.3.2005. This is not a good sign as income from Hospital operations have been continuously falling for the last three years.