

CHAPTER-III
THEORETICAL ASPECT OF FUND FLOW ANALYSIS

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CHAPTER-III

THEORETICAL ASPECT OF FUND FLOW ANALYSIS.

3.1 INTRODUCTION :-

The two basic financial statements which are important to owners, management and creditors are the Balance sheet and Profit and loss A/c. It reveals that financial position of the company at a certain point of time, it does not present any analysis. The balance sheet gives a summary of assets and liabilities of an undertaking at particulars point of time. It reveals the financial status of the company. The assets side of balance sheet shows the development of resources of an undertaking while the liabilities side indicates its obligations, i.e. the manner in which these resources are obtained. The profit and loss account reflects the result of the business operations for a period of time. It contains a summary of expenses incurred and the revenues realized in an accounting period. Both these statements provide the essential basic information on the financial activities of a business, but its usefulness is limited for analysis and planning purpose. The balacesheet gives a static view of the resources 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 A/c, in a general way, indicates the resources provided by operation. But there are many transactions that take place in an undertaking and which do not operate through Profit and loss A/c. Thus another statement has to be prepared to show the

changes in the assets and liabilities from the end of one period of time to the end of another period of time. This statement is called a statement of changes in financial position or fund flow statement.

The fund flow statement is a statement which shows the movement of funds and is report of the financial operation of the business undertaking. It indicates the various means which funds were obtained during a particular period and the way to which these funds were employed. In simple words, a statement of sources and application of funds.

3.2 MEANING AND CONCEPT OF FUND :-

The term fund has been defined in number of way.

A] In a narrow sense:-

It means cash only and fund flow statement prepared on this basis is called a cash flow statement. Such a statement enumerates net effect of the various businesses, transaction on cash and take in to account receipt and disbursement of cash.

B] In a broader sense:-

The term 'fund' refers to money values in whatever from it may exist. Here 'fund' means all financial resources.

C] In a popular sense:-

The term 'fund' means working capital. i.e. the excess of current assets over current liabilities. The working capital concept of funds has emerged due to the fact that total resources of a business are partly kept in the form of liquid or near liquid form as working capital.

The narrower concept of fund, i.e. cash or working capital concept, fails to reveal the changes in the total financial resources of a business. Some significant items, such as purchase of building in exchange of shares or payment of bonus in the form of share, which do not directly affect cash or working capital are not revealed from the analysis based on these concepts. However, the concept of funds as working capital is the most popular one and in this chapter we shall refer to fund as working capital and a fund flow statement as a statement of sources and application of fund.

3.3 MEANING AND CONCEPT OF 'FLOW' OF FUND:-

The term 'flow' means movement and includes both 'Inflow' and 'Outflow'. The term 'flow' of fund means transfer of economic value from one asset of equity to another. Flow of funds is said to have taken place when any transaction makes changes in the amount of fund available before happening of the transaction. If the effect of transaction results in the transaction result in the increase of fund, it is called a source of fund and if it results in the decrease of funds, it is known as an application of fund. Further in case the transaction does not change funds it is said to have not resulted in the flow of funds. According to the working capital concept of funds, the term 'flow of funds' refers to the movement of funds, in the working capital. If any transaction results in the increase in working capital, it is said to be a source or inflow of funds and if it results in the decrease of working capital, it is said to be an application or outflow of funds.

The flow of fund occurs when a transaction changes on the one hand a non current account and on the other a current account and vice versa. When a change in a non-current account e.g. fixed assets, long term liabilities, reserve and surplus, fictitious assets etc. is followed by a change in another non-current account, it does not amount to flow of funds. This is because of the fact that in such cases neither the working capital increases nor decrease. Similarly when a change in one current account result in a change in another current account it does not affects funds. Funds move from non-current to current transaction or vice versa only. In simple language fund move when a transaction affects.

- i] A current asset and a fixed assets or
- ii] A fixed and a current liability or
- iii] A current assets and a fixed liability or
- iv] A fixed liability and current liability and funds do not move when the transaction affects fixed assets and fixed liability or current assets and current liabilities.

Current and non-current accounts:-

Current account can either be current assets or current liabilities. Current assets are those assets which in the ordinary course of business can be or will be converted in to cash within a short period of normally one accounting year. Current liabilities are those liabilities which are intended to be paid in the ordinary course of business within a short period of normally one accounting year out of the current assets or the income of the business.

The following is the list of current or working capital account.

LIST OF CURRENT OR WORKING CAPITAL ACCOUNTS

	Current liabilities	Current assets
1.	Bills payable	Cash in hand
2.	Sundry creditors or accounts payable	Cash at bank
3.	Accrued or outstanding expenses	Bills receivable
4.	Dividend payable	Sundry debtors or account receivable
5.	Bank overdraft	Short-term loans and advances
6.	Short term loans, advances & deposits.	Inventories or stocks such as a) raw material b) work in - progress c) stores & spares d) finished goods
7.	Provision against current assets	
8.	Provision for taxation. If it does not amount to appropriation of profits.	Prepaid expenses
9.	Propose dividend	Accrued incomes

**LIST OF NON-CURRENT OR PERMANENT
CAPITAL ACCOUNT**

Non-current or permanent liabilities		Non-current or permanent assets	
1.	Equity share capital	1.	Goodwill
2.	Preference share capital	2.	Land
3.	Redeemable preference share capital	3.	Building
4.	Debenture	4.	Plant and machinery
5.	Long-term loans	5.	Furniture & fixtures
6.	Share premium account	6.	Trade mark
7.	Share forfeited account	7.	Patent right
8.	Profit & loss A/c (balance of profit, i.e. credit balance)	8.	Long term investment
9.	Capital reserve	9.	Debt balance of P & L A/c
10.	Capital redemption reserve	10.	Discount of issue of share
11.	Provision for depreciation against fixed assets.	11.	Discount of issue of debenture
12.	Appropriation of profit :	12.	Preliminary expenses
	a) General reserve b) Dividend equalization fund c) Insurance fund d) Compensation fund e) Sinking fund f) Investment fund g) Provision for tax h) Proposed dividend	13.	Other deferred expenses

Procedure for knowing whether a transaction results in the flow of fund or not:

2. Analyze the transaction and find out the two accounts involved.
3. Make journal entry of the transaction
4. Determine whether the accounts involved in the transaction are current or non-current accounts.
5. If both the accounts involved are current i.e. either current assets or current liabilities, it does not result in the flow of fund.
6. If both the accounts involved are non-current i.e. either permanent assets or permanent liabilities, it still does not result in the flow of funds.
7. If the accounts involved are such that one is a current account while the other is a non-current account, for example current assets & permanent liability or current assets & fixed assets or current liability and fixed assets or current liabilities and permanent liability, then it results in the flow of fund.

3.4 MEANING AND CONCEPT OF FUND FLOW STATEMENT:

Fund 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.

Foulke defines this statement as:-

“A statement of sources and application of funds is a technical device designed to analyse the changes in the financial condition of a business enterprise between two dates.”

In the words of Anthony, “the funds flow statement describes the sources from which additional funds were derived and the use which these sources were put.”

I.C.W.A in glossary of management accounting terms defines fund flow statement as “a statement prospective or retrospective, setting out the sources and application of the fund of an enterprise. The purpose of the statement is to indicate clearly the requirement of funds and how they are proposed to be raised and the efficient utilization and application of the same.”

In the words of Bierman:-

“It is a statement which highlights the underlying financial movement and reflects the changes in the financial position between the two dates.”

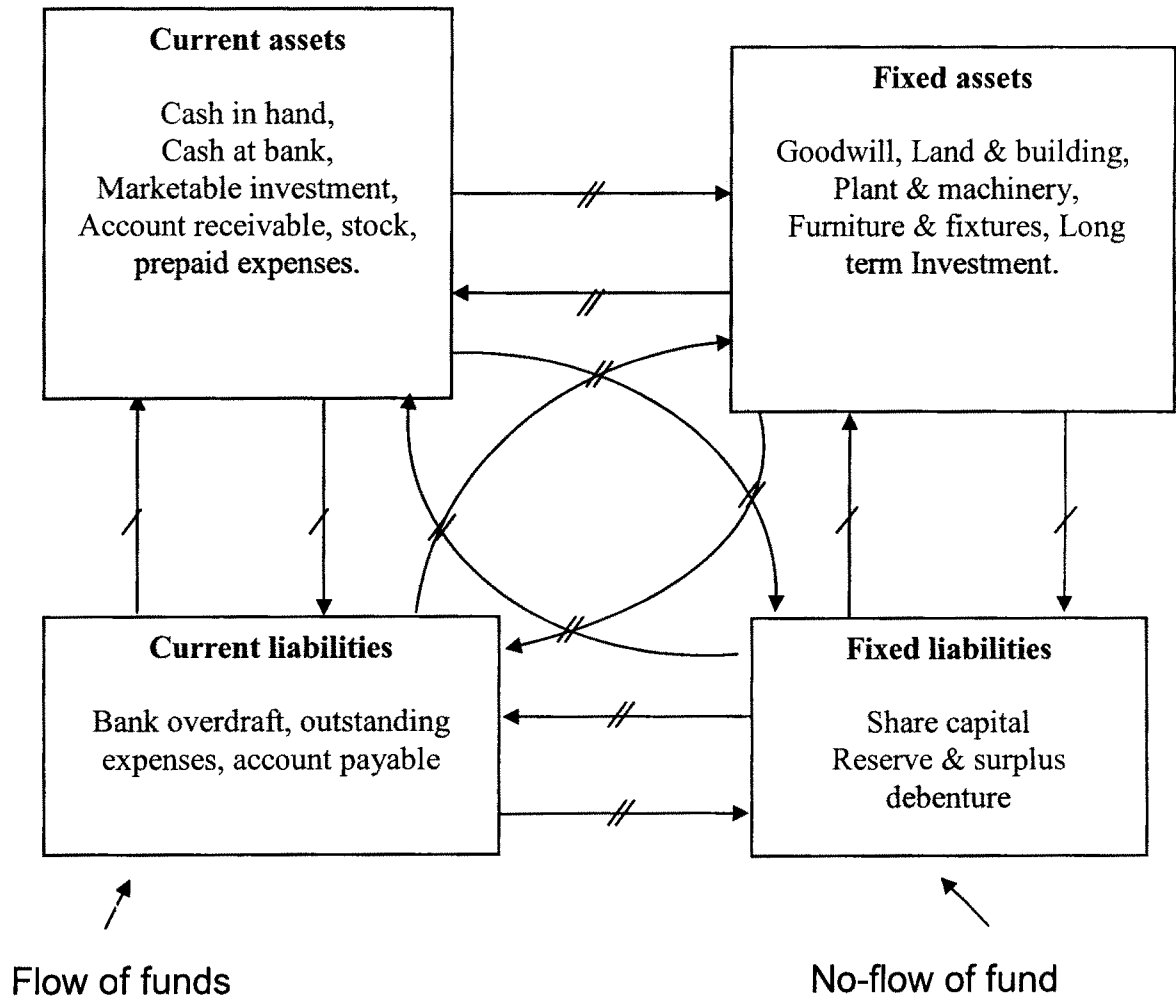
Fund flow statement is also known as statement of sources and application of funds.

It is a statement which shows the sources from which the funds are obtained and the uses to which they are being put over the period of time. It is a statement prepared in summary from which highlights the changes in financial items of balance sheet prepared at two different dates. It attempts to report the flow of funds between the various and equity items during the accounting period. It provides missing link between balance sheet at the commencement and at end of accounting period

and in the process it reveals the vital changes in the financial structure of the undertaking.

The fund flow statement is a statement which indicates the various means by which these funds have been obtained during certain period and the way to which these funds have been used during the period. The term fund used there means working capital i.e. the excess of current assets over current liabilities. Fund flow statement is called by sources and application funds, statement summary of financial operation, movement of working capital statement movement of funds statement, funds received and disbursed statement, funds generated and expended statement etc.

3.5: 0.1 FUND FLOW DIAGRAM



Source : Sharma & Gupta (Management Accountancy)

Note : Sign of Flow of fund (//)

Sign of No. flow of fund (✓)

“A funds flow statement is therefore a statement depicting changes in working capital. It is also as a statement of sources and application of fund.”

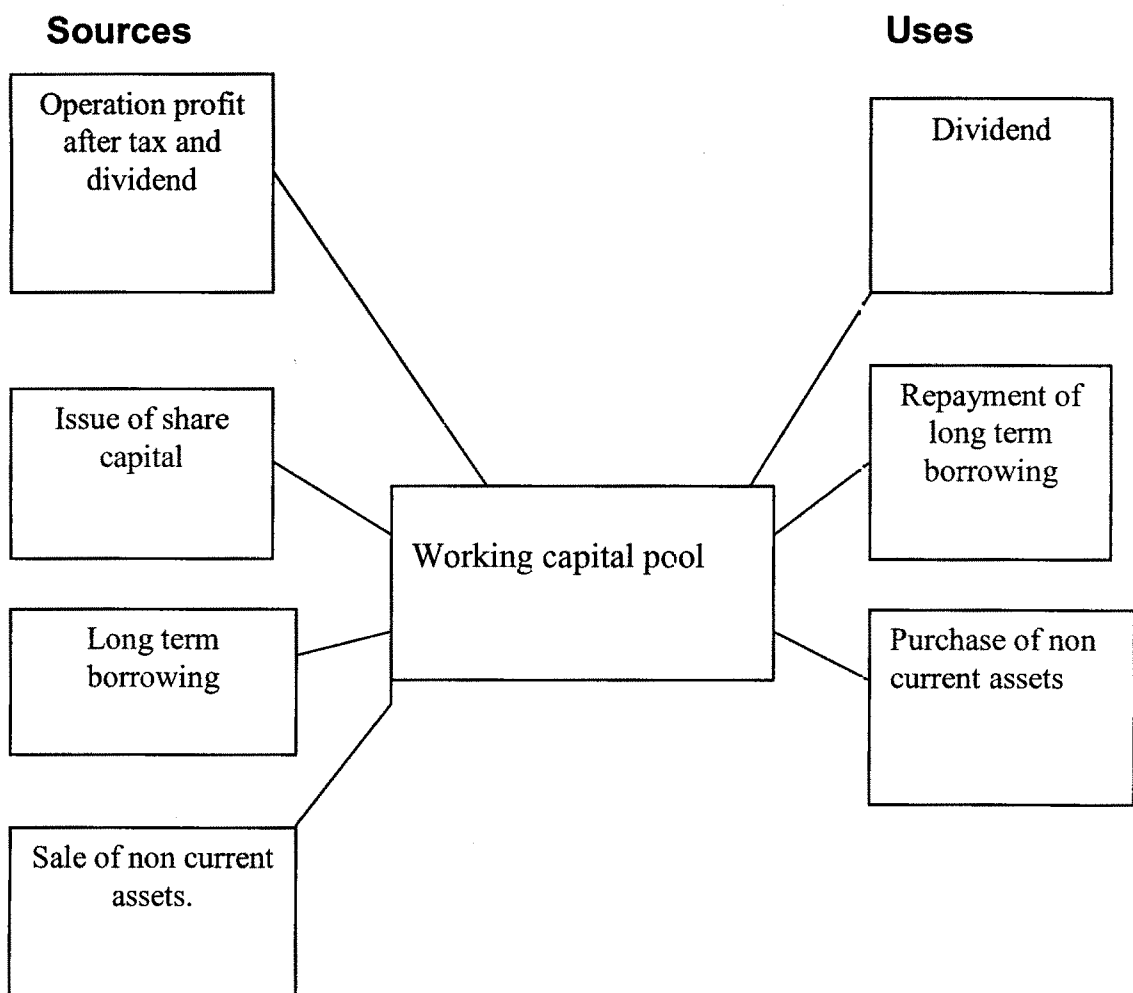
0.2 fund flow statement analysis:

Working capital basis:-

The fund flow statement on working capital basis, present

- i) The sources of working capital,
- ii) The uses of working capital, and
- iii) The change in working capital,. It may be noted that working capital is defined here as current assets minus current liabilities.

The sources and uses of working capital are shown in following diagram.



Source : Prassanna Chandra, Corporate sense.

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3.6 OBJECTIVE OF FUND FLOW STATEMENT:

Fund flow statement is a useful tool in the financial manager's analytical kit. The important objectives of this statement are:

1. To indicate the result of current financial management.
2. To lay emphases on the most significant changes that has been place, during a specific period.
3. To describe the sources from which additional fund were derived.
4. To establish the relationship between profit from operations, distribution of dividend & rising of new capital on contracting of loans.
5. To give recognition to the fact a business exists or flow of funds and is not a static organization.

3.7 IMPORTANCE OF FUND FLOW STATEMENT:-

A fund flow statement is an essential tool for the financial analysis and is of primary importance to the financial management. Now a days it is being widely used by the financial analysts, credit granting institutions and financial managers. The basic purpose of a fund flow statement is to reveal the changes in the working capital on the two balance sheet dates. It also describes the sources from which additional working capital has been financed and the uses to which working capital has been applied. Such a statement is particularly useful in assessing the growth of the firm, its resulting financial needs and in determining the best way of financing these needs. By making use of projected fund flow statement, the management can

come to know the adequacy or inadequacy of working capital even in advance. One can plan the intermediate and long term financing of the firm, repayment of long term debts, expansion of the business allocation of resources, etc. The significance or importance of a fund flow statement can be well followed from its various uses given below:

1. It helps in the analysis of financial operation:-

The financial statement reveals the net effect of various transactions on the operational and financial position of a concern. The balance sheet gives a static view of the resources of a business and the uses to which these resources have been put at a certain point of time. But it does not disclose the causes for changes in the assets and liabilities between two different points of time. The fund flow statement explains causes for such changes and also the effect of these changes on the liquidity position of the company sometimes a concern may operate profitably and yet its cash position become more and more worse. The funds flow statement gives a clean answer to such a situation explaining what has happened to the profit of the firm.

2. Evaluation of firm financing:

One important use of the statement is that it evaluates the firm's financing capacity. The analysis of sources of funds reveals how the firm financed its development projects in the past i.e. from internal sources or from external sources. It also reveals the rate of growth of the firm.

3. It throws light on many perplexing questions of general interest which otherwise may be difficult to be answered, such as:-

- a) Why were the net currents lesser in spite of higher profit and vice-versa.?
- b) Why more dividends could not be declared in spite of available profits?
- c) How was it possible to distribute more dividends than the present earning?
- d) What happened to the net profit? Where did they go?
- e) What happened to the proceeds of sale of fixed assets or issue of share, debentures etc?
- f) What are the sources of the repayment of debt?
- g) How was the increased in working capital financed and how will it be financed in future?

4. It helps in the formation of a realistic dividend policy:

Sometimes a firm has sufficient profits available for distribution as dividend but yet it may not be advisable to distribute dividend for lack of liquid or cash resources. In such cases, a funds flow statement helps in the formation of a realistic dividend policy.

5. It helps in the proper allocation of resources:

The resources of a concern are always limited and it wants to make the best use of these resources. A projected fund flow statement constructed for the future help in making management decisions. The firm can plan the development of its resources and allocate them among the various applications.

6. It acts as a future guide:

A projected fund flow statement also acts a guide for future to the management. The management can come to know the various problems it is going to face in near future for want of funds. The firms future needs of fund can be projected well in advance and also the timing of these needs. The firm can arrange to finance these meeds more effectively and avoid future problems.

7. It helps in appraising the use of working capital:

A fund flow statement helps in explaining how efficiently the management has used its working capital and also suggests ways to improve working capital position of the firm.

8. It helps knowing the overall credit worthiness of a firm:

The financial institutions and banks such as state financial institutions, Industrial Development Corporation, Industrial Finance Corporation of India, Industrial Development Bank of India, etc. all ask for fund flow statement constructed for a number of years before granting loans to know the credit worthiness and paying capacity of the firm. Hence a firm seeking financial assistance from these institutions has no alternative but to prepare fund flow statements.

9. Control device:

A fund flow statement serves as a control device in the sense that the statement compared with the help of budgeted figures will shows to what extent, the funds were utilized according to plan on this basis, the financial manager can take remedial steps if there is any deviation.

3.8 USES OF FUNDS FLOW STATEMENT

1. One gets an insight into financial operation of the firm. This will help to analyze the past trends and plan future operations.
2. It is possible to know external sources. It will also be clear whether growth was at a rapid pace and financing was strained.
3. It reveals disproportionate growth of inventories and disproportions increase in creditors in relation to current assets affecting the credit worthiness of the firm.
4. It is possible to detect the imbalances in the use of funds. For example to earning against the background of the firms need for funds.
5. In the case of multi-division companies funds flow statement helps to evaluate the performance of division in the use of funds allotted to them.
6. It serves as a tool for economic analysis which is a very useful technique.
7. It can assist in planning for obtaining resources in the future and in determining how they are to be used.
8. It serves to analyst past activity. The statement will show how the resources have been obtained and the uses to which they are put

3.9 CONSTRUCTION OF FUND FLOW STATEMENT:

A fund flow statement is prepared on the basis of information contained in the balance sheets at two points in time and those from profit and loss account for the period concerned. It is the responsibility of the accounts department to construct a funds flow statement.

Format:

Although there is no standard form for preparation of the statement, the important point to be borne in mind is that the necessary items should be arranged and shown in such a way as to exhibit clearly all important financial events of the period. Two forms are widely used in preparing a fund flow statement. They are 'T-form' and vertical form. A pro-forma of each of them is given.

T-form
Fund flow statement
For the year ended...

	Sources	Amount		Application	Amount
1.	Trading profit or funds from operation	xxx	1.	Trading loss or fund depleted by operations	xxx
2.	Issue of shares	xxx	2.	Redemption of preference shares	xxx
3.	Long term loan	xxx	3.	Repayment of loan	xxx
4.	Sale of fixed assets, investment etc.	xxx	4.	Acquisition of fixed assets, investment etc.	xxx
5.	Non-trading income e.g. dividend	Xxx	5.	Non-trading item, e.g dividend	xxx
6.	Decrease in working capital	xxx	6.	Increase in working capital	xxx

Vertical form
Fund Flow Statement

For the year ended...

	Sources of Fund	Amount (Rs)
1.	Trading profit or fund from operation	xxx
2.	Issue of share capital	xxx
3.	Long term loan	xxx
4.	Sale of fixed assets, investments, etc	xxx
5.	Non-trading income	xxx
6.	Decrease in working capital	xxx
	Total	xxx
	Application of Fund	
1.	Trading loss or funds depleted by operation	xxx
2.	Redemption of preference shares	xxx
3.	Repayment of loan	xxx
4.	Acquisition of fixed assets, investment, etc	xxx
5.	Non-trading items	xxx
6.	Increase in working capital	xxx
	Total	xxx

Since the 'net change in financial position is shown in terms of change in working capital during a period, it becomes imperative to prepare another statement showing change in working capital along with the fund flow statement. A proforma of such statement is given below.

Statement Changes in Working Capital

Particulars	Year I Amount Rs	Year II Amount Rs	Changes of W.C.	
			Increase Rs. (+)	Decrease Rs. (-)
A. Current assets :-				
Stock	xx	xx	xx	-
Sundry debtors	xx	xx	-	xx
Bills receivable	xx	xx	xx	-
Advances (dr)	xx	xx	-	xx
Cash & bank	xx	xx	xx	-
Prepaid expenses	xx	xx	xx	-
Total (A)	xx	xx		
B. Current liabilities				
Sundry creditors	xx	xx	-	xx
Bills payable	xx	xx	xx	-
Advances (cr)	xx	xx	xx	-
Outstanding expenses	xx	xx	xx	-
Current provisions (if not treated as appropriation)	xx	xx	-	xx
Bank overdraft	xx	xx	-	xx
Total (B)	xx	xx		
C. Working capital (A-B)	xx	xx		
D. Increase / decrease In working capital	-	xx		xx
	xx	xx	xx	xx

In preparing the above statement, difficulties are often encountered by the students in relation to the last two columns viz, in determining the impact of change of an item of current assets and liability. If the basic relation between the three is kept in mind, it is likely to pose little difficulty to the students in this respect.

Working Capital = Current Assets - Current Liabilities

Therefore, liabilities remaining constant, increase in current assets will increase the gap, i.e. working capital, and vice versa. On the other hand current assets remaining constant, an increase in current liabilities will reduce the gap, i.e. reduce working capital and vice versa. Apart from ensuring arithmetical accuracy, the advantage of maintaining last two columns of the statement is that they highlight the impact of changes in each item of current assets and current liabilities towards the overall change in working capital.

Many items of sources and application of funds cannot, how ever be determine directly by comparing figure at two dates as suggested above. They are to be extracted from basic information through ledger accounts e.g. when transaction relating to plant and machinery are given, the sources and applications on this account during the period under consideration can be determined through plant and machinery account.

Similarly, trading profit for the fund flow statement may be arrived at through adjusted profit & loss account. The proformas of Adjusted Profit and Loss A/c is given below.

Fund from operation (trading profit)

	Amount	Amount
Net profit		Xxx
Add : depreciation	Xxx	
Write offs :-		
Goodwill	Xxx	
Preliminary expenses	Xxx	
Advertisement suspense	xxx	
Patent	xxx	
Provision (see post)		
Non trading losses (i.e. loss on sale of plant machinery etc.)	xxx	xxx
Less : non-trading income		
Dividend	Xxx	
Profit on sale of fixed assets etc	Xxx	Xxx
Funds from operation or trading profit		xxx

There are two reasons for use of add back method in most annual reports first, beginning with net income shows the important link with the income statement. Second, the direct method duplicates much of what is already contained in the income statement.

The treatment of certain items may be discussed in brief.

1. Dividend:-

Proposed dividend may be treated as an item of current liability or an item of appropriation. When dividend is proposed and declared in the general meeting, it becomes a liability to the company to be liquidated within 42 days from declaration. Hence it should be treated as current liability. In this case, the statement showing change in working capital will consist of dividend as one of the items of current liabilities when dividend is paid later on it should not be shown in the funds flow statement as an application of fund. It should be mentioned that once it forms part of the current liabilities it reduces working capital and no further effect is necessary subsequently when payment is made.

On the other hand dividend recommended but yet to be approved in the general meeting is actually a part of the surplus and may be treated as appropriation from profit. Thus, the amount of dividend for the current year should be debited to the adjusted profit and loss A/c while the amount of actual payment (for the previous year) should be shown in the funds flow statement as application. When the balance sheet shows 'proposed dividend' for two years and no further information is given, it may be presumed that the last years figure must have been paid during the current year.

In examinations, students should clearly mention their presumptions while treating the item. Sometimes indications may be available from question as to which of the two treatments should be followed e.g. if the items appears under

“current liabilities” in the balance sheet as per question, the students are advised to treat it as an items of current liabilities and not as an items of appropriation.

Interim dividend paid is actually an appropriation of profit and hence should be debited to adjusted profit and loss A/c in arriving at trading profit and shown as application in the funds flow statement.

Dividend received in respect of investment is a source of fund whether the dividend is pre acquisition or post acquisition dividend, is not relevant from the point of view of source of fund as in either of the cases the incoming fund remains the same only some accounting adjustment may have to be made depending upon the situation.

2. Provision for tax :-

Like proposed dividend provision for tax can be treated as an item of current liability (if it is shown as such in the balance sheet as per question) when such provision is made debiting the appropriation account (fixed liability) and crediting the provision for tax account (current liability) working capital is reduced when payment is made no effect is necessary in the fund flow statement since there will not be any change in working capital as the payment of the some involves one current liability, provision for tax, and a current assets, bank or cash so, provision for tax will only appear as an item of current liabilities and adjusted profit & loss A/c and the fund flow statement remain untouched.

Alternatively, it may be treated as an item of appropriation in the absence of any instruction/indication in the question. In

such a case, the amount of provision in respect of tax (i.e. current years figure) should be debited to adjusted profit and loss account, while the amount of actual payment (in respect of previous and current years) of tax is shown in the funds flow statement as an application, it may be stated that when the provision is made it does not effect working capital position as it involves two fixed liabilities, profit and loss appropriation account & provision for tax account. When tax is paid it is shown as an application of fund in that it involves provision for tax account, which has been taken as a fixed liability, and bank or cash account which is a current assets. As mentioned earlier, students should clearly indicate their presumptions while treating the item.

3. Provision against current assets :-

This includes provision for bad and doubtful debts, provision for loss on inventories (or allowance for inventories loss) etc. they may be treated as a current liability or an item of appropriation.

In the former case there may be two possible alternatives. In the first case, current asset may be shown net of provision or allowance. Alternatively, current asset may be shown at gross value while the amount of provision of allowance will be included as an item of current liability. The effect on working capital will however be the same under both the alternatives.

In case of treatment as appropriation, the amount of provision made during the current year should be debited to the adjusted profit & loss account. This will ultimately have the effect of increasing the funds from operation.

4. Write-OFFS :-

Goodwill, preliminary expenses, advertisement suspense etc written off during the current period should be debited to adjusted profit & loss account to arrive at trading profit or loss.

5. Provision for depreciation:

The amount of depreciation provided during the current period may be shown as a source of fund in addition to net profit or may be (added back to net profit or) debited to adjusted profit and loss account to arrive at trading profit or loss for the year. In the latter case, depreciation is not shown as a separate source-it is mixed up with the trading profit or loss. The amount of depreciation for the year may be available directly or this information may have to be extracted through preparation of provision for depreciation account.

6. Purchase or sale of fixed assets, profit or loss on sale etc:-

When fixed assets like plant and machinery, land and building etc, are sold the amount should be shown as a source of fund. Similarly, purchase of fixed assets should appear as application of fund. This amount of purchase or sale will be determined through preparation of the asset account. The said account may be maintained at W.D.V. i.e. cost less depreciation, or at original cost only, as the case may be. In the former case, all entries will be made in the assets account concerned. After crediting the said account with the amount of annual depreciation and posting all the items (including transferring profit or loss on the transaction to profit & loss A/c) the balancing

figure will be taken as sale or purchase as the case may be. When asset account is maintained at original cost, along with the asset account asset sale or disposal account and provision for depreciation account are to be prepared. The balancing figure in the assets account will be taken as the amount of purchase. The asset sale account will be debited with the original cost and credited with total depreciation written off and reliable value. The profit or loss on sale from this account will be transferred to the profit & loss account. It may, however, be mentioned that the fixed asset account should be prepared in the same line as it is maintained in the ledger as reflected by the information contained in the balance sheet.

7. Redemption of preference shares:

Redeemable preference shares (fully paid up) can be redeemed out of (a) divisible profit, and/or (b) proceeds of fresh issue of shares made for this purpose. When shares are to be redeemed except out of fresh issue of shares, a sum equal to the nominal value of preference share to be redeemed must be transferred to 'Capital Redemption Reserve' account. In other words vacuum to be created in the capital structure by redemption of preference shares is to be filled in advance either by fresh issue of shares for this purpose or by creation of Capital Redemption Reserve account which is treated on the same footing as paid up capital.

The amount of shares redeemed, including premium, if any is an application of fund in the funds flow statement. The proceeds of fresh issue of shares represent a source of fund and are shown accordingly in the fund flow statement.

8. Trading profit (i.e. funds from operations) or trading loss (i.e. funds depleted by operations)

This is most important and most regular source of funds. In case of a profitable concern, it represents one of the largest sources over a period of time. Fund from operations or trading profits can be determined under two methods- Add back method and the Direct method. The Add back method computes funds from operations by simply adjusting the net income (profit) figure for those items that do not affect funds but are included in the profit and loss account.

3.10 TRANSACTION THAT WILL NOT AFFECT THE FLOW OF FUNDS:

The following transaction will not bring any change in the working capital and thus, there will be not flow in fund.

1) Current assets and current liabilities:

When in any transaction one aspect effects the current assets and other current liabilities, there is no flow in fund e.g. if goods are sold on credit, it will increase the debtors and will reduce the stock of goods. So there will be no change in the working capital. Similarly, if cash is paid to creditors, it will decrease the current liabilities; there will be no change in the working capital.

2) Non- current assets & non current liabilities:

If any transaction, one aspect the non current assets and the other non current liabilities, there will not be any change in the working, e.g. if building is purchased by the issue of equity

shares, it will increase the non-current assets and non current liabilities, but there will not be any changes in working capital, similarly, if debenture are redeemed out of the amount received from the sale of machinery, it will reduce the non-current assets and non current liabilities. But there will be no change in working capital.

3) Non-current liabilities or non current assets:-

If there is any transaction both aspects of which affect non-current liabilities, it will not affect the working capital. e.g. if debentures are converted into share capital it will on one hand increase the non-current liabilities and on the other hand decrease the non-current liabilities.

3.11 HOW ARE FUNDS FLOW STATEMENT COMPLIMENTORY TO FINANCIAL STATEMENT

The following summary shows how funds flow statement complement the financial statement.

- a) Financial statement is intended to provide information about the financial position of a business enterprise and its profitability. But the information available from the financial statements is partial. Fund flow statement provides additional information of immense value to the management.
- b) Revenue statement are prepared to show the operating result for a given period while the fund flow statement show the flow of fund for the relevant period.
- c) While a balance sheet shows the financial position as on a given date, fund flow statement acts as a link

between two balance sheet dates and thereby reflects the changes in the financial position during the period.

- d) Financial statement act as a guide to the management by providing necessary information but funds flow statement highlight the information.
- e) While profit & loss account show the summary of transactions and their effects on profit, fund flow statement indicates as to how the Profit have been utilized.

3.12 LIMITATIONS OF FUND FLOW STATEMENT:

The fund flow statement has a number of uses however; it has certain limitation also which are listed below.

1. It should be remembered that a funds flow statement is not a substitute of an income statement or a balance sheet. It provided only some additional information as regards changes in working capital
2. The fund flow statement reveals the overall change in the working capital but not the variation in individual items.
3. Fund flow statement is prepared on base of historical information.
4. It cannot reveal continuous changes.
5. It is not an original statement but simply a re arrangement of data given in the financial statement.
6. Changes in cash are more important and relevant for financial management than the working capital.

7. Funds flow statement does not disclose structural changes in the financial relationship in the business enterprises not major changes in policy regarding investment in current assets and short term financing.
8. The concept fund consists of various types of items such as cash debtors; stock, prepaid expenses etc. Thus fund flow statement lacks uniformity of presentation of data.
9. The management may manipulate the working capital by adopting different method of inventory valuation.

CHAPTER IV

DATA ANALYSIS AND INTERPRETATION

This chapter includes presentation and interpretation of collected data through financial statements and graphs.

4.1 INTRODUCTION

4.2 'FUND FLOW ANALYSIS' years 2001-02 to 2005-06

- a) Statement changes in working capital
- b) Statement of Sources & Application of fund
- c) Adjusted Profit & Loss A/c

4.3 Trend Analysis & Graphical Presentation