

# UDHNA COLLEGE

## TYBCOM SEM-5

Advanced Accounting and Auditing-6

### **Fund Flow Statement**

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#### **Changes in Financial Position :**

- (a) Fund Flow Statement
- (b) Cash Flow Statement

#### **FUND FLOW STATEMENT**

##### **Introduction**

The purpose of measuring trading performance, operational efficiency, profitability and financial position of a concern revealed by Trading, Profit and Loss Account and Balance Sheet. These financial statements are prepared to find out the Gross Profit or Gross Loss, Net Profit or Net Loss and financial soundness of a firm as a whole for a particular period of time. From the management point of view, the usefulness of information provided by these income statements functions effectively and efficiently. In the true sense they do not disclose the nature of all transactions. Management, Creditors and Investors etc. want to determine or evaluate the sources and application of funds employed by the firm for the future course of action. Based on these backgrounds, it is essential to analyse the movement of assets, liabilities, funds from operations and capital between the components of two year financial statements. The analysis of financial statements helps to the management by providing additional information in a meaningful manner.

##### **Meaning of Fund**

The term "Fund" refers to Cash, to Cash Equivalents or to Working Capital and all financial resources which are used in business. These total resources of a concern are in the form of men, materials, money, plant and equipments and others.

In a broader meaning the word "Fund" refers to Working Capital. The Working Capital indicates the difference between current assets and current liabilities. The term working capital may be :

- (a) Gross Working Capital and
- (b) Net Working Capital.

“Gross Working Capital” represents total of all Current Assets.

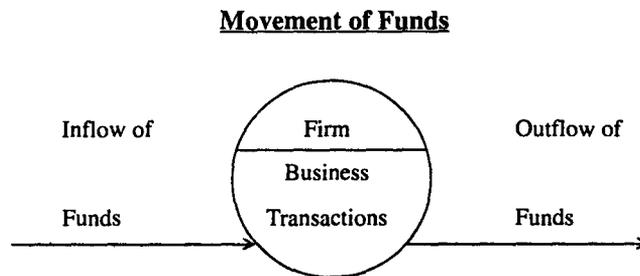
“Net Working Capital” refers to excess of Current Assets over Current Liabilities.

In a narrow sense the word “Fund” denotes cash or cash equivalents.

### Meaning of Flow of Funds

The term “Flow of Funds” refers to changes or movement of funds or changes in working capital in the normal course of business transactions. The changes in working capital may be in the form of inflow of working capital or outflow of working capital. In other words, any increase or decrease in working capital when the transactions takes place is called as “Flow of Funds.” If the components of working capital results in increase of the fund, it is known as Inflow of Fund or Sources of Fund. Similarly, if the components of working capital effects in decreasing the financial position it is treated as Outflow of Fund. For example, if the fund raised by way of issue of shares will be taken as a source of fund or inflow of fund. This transaction results in increase of the financial position. Like this, the fund used for the purchase of machinery will be taken as application or use of fund or outflow of fund. Because it stands to reduce the fund position.

The following chart shows the movement of funds :



### No Flow of Funds

Some transactions may not make any movement or changes in the fund position. Such transactions are involved within the business concern. Like the transaction which involves both between current assets and current liabilities or between non-current assets and non-current liabilities and hence do not result in the flow of funds. For example, conversion of shares in to debenture. Such transaction involves between non-current account only and this activity does not effect in increase or decrease of the working capital position.

### Statement of Changes in Financial Position

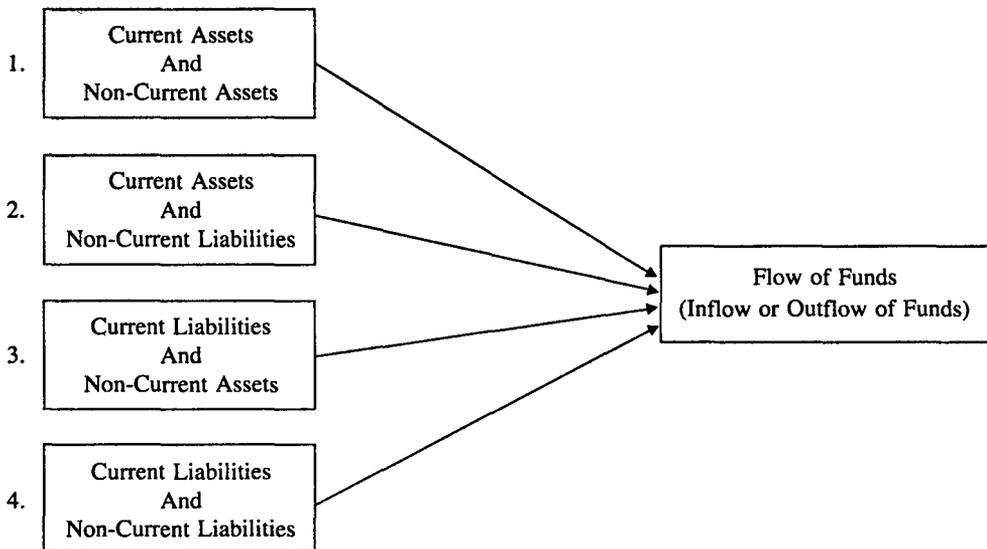
It is a statement prepared on the basis of all financial resources, i.e., assets, liabilities and capital. This statement is attempt to measure changes in both current and non-current accounts. The changes in financial position may occur in deal with following transactions:

- (a) Involves between current assets and non-current assets (fixed assets or permanent assets).
- (b) Involves between current liabilities and non-current assets.
- (c) Involves between current assets and non-current liabilities (long-term liabilities and capital).
- (d) Involves between current liabilities and non-current liabilities.

The following chart explains the flow of funds when transaction involves between current and non-current accounts:

**Flow of Funds Chart**

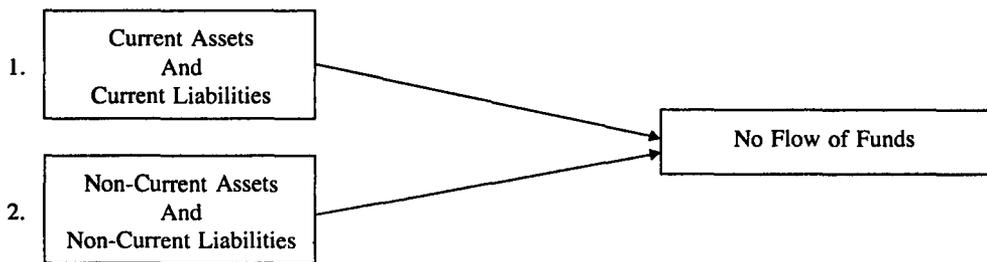
**Transaction Involves between**



When the transaction involves between non-current account and between current account it is not movement of funds. The following chart shows the no flow of funds :

**No Flow of Funds Chart**

**Transaction Involves between**



**Examples of Flow of Funds and No Flow of Funds**

The following are the few examples of flow of funds and no flow of funds:

**Examples of “Flow of Funds”**

<i>Examples</i>	<i>Transactions Involve Between</i>	<i>Flow of Funds From</i>
(1) Purchase of Machinery for Cash	Current Asset and Non-Current Asset	Current to Non-Current Account
(2) Issue of Share for Cash	Current Asset and Capital	Current to Capital Account
(3) Redemption of Debenture in Cash	Current Asset and Non-Current Liabilities	Current to Long-Term Liabilities Account
(4) Creditors Paid off in Debenture	Current Liabilities and Non-Current Liabilities	Non-Current Liabilities to Current Liabilities
(5) Land Transferred to Creditors for their Statement }	Current Liability and Non-Current Assets	Non-Current Assets to Current Liability

**Examples of “No Flow of Funds”**

<i>Examples</i>	<i>Transactions Involve Between</i>	<i>Flow of Funds From</i>
(1) Payment made to Creditors	Current Asset and Current Liabilities	No Flow of Funds
(2) Machinery Purchased and Payment made in Debenture }	Non-Current Assets and Non-Current Liabilities	No Flow of Funds
(3) Machinery Purchased and Payment made in Shares }	Non-Current Asset and Capital	No Flow of Funds

## Components of Flow of Funds

In order to analyse the sources and application of funds, it is essential to know the meaning and components of flow of funds given below :

- (1) Current Assets
- (2) Non-Current Assets (Fixed or Permanent Assets)
- (3) Current Liabilities
- (4) Non-Current Liabilities (Capital & Long-Term Liabilities)
- (5) Provision for Tax
- (6) Proposed Dividend

**(1) Current Assets:** The term "Current Assets" refer to the assets of a business of a transitory nature which are intended for resale or conversion into different form during the course of business operations. For example, raw materials are purchased and the amount unused at the end of the trading period forms part of the current as stock on hand. Materials in process at the end of the trading period and the labour incurred in processing them also form part of current assets.

**(2) Non-Current Assets (Permanent Assets):** Non-Current Assets also refer to as Permanent Assets or Fixed Assets. This class of asset include those of tangible and intangible nature having a specific value and which are not consumed during the course of business and trade but provide the means for producing saleable goods or providing services. Land and Building, Plant and Machinery, Goodwill and Patents etc. are the few examples of Non-Current Assets.

**(3) Current Liabilities:** The term Current Liabilities refer to amount owing by the business which are currently due for payment. They consist of amount owing to creditors, bank loans due for repayment, proposed dividend and proposed tax for payment and expenses accrued due.

**(4) Non-Current Liabilities:** The term Non-Current Liabilities refer to Capital and Long-Term Debts. It is also called as Permanent Liabilities. Any amount owing by the business which are payable over a longer period time, i.e., after a year are referred as Non-Current Liabilities. Debenture, long-term loans and loans on mortgage etc., are the few examples of non-current liabilities.

**(5) Provision for Taxation:** Provision for taxation may be treated as a current liability or an appropriation of profit. When it is made during the year it is not used for adjusting the net profit, it is advisable to treat the same as current liability. Any amount of tax paid during the year is to be treated as application of funds or non-current liability. Because it is used for adjusting the net profit made during the year.

**(6) Proposed Dividend:** Like provision for taxation, it is also treated as a current liability and non-current liability, when dividend may be considered as being declared. And thus, it will not be used for adjusting the net profit made during the year. If it is treated as an appropriation, i.e., an non-current liability when the dividend paid during the year.

**(7) Provisions Against Current Assets and Current Liabilities:** Provision for bad and doubtful debts, provision for loss on inventories, provision for discount on creditors and provision made against investment etc. are made during the year, they may be treated separately as current assets or current liabilities or reduce the same from the respective gross value of the assets or liabilities.

The list of Current Accounts and Non-Current Accounts are given below :

### Current Accounts

<i>Current Liabilities</i>	<i>Current Assets</i>
(1) Bills Payable	(1) Cash in Hand
(2) Sundry Creditors	(2) Cash at Bank
(3) Outstanding Expenses	(3) Bills Receivable
(4) Dividends Payable	(4) Sundry Debtors
(5) Bank Overdraft	(5) Short-Term Investments
(6) Short-Term Loans	(6) Marketable Securities
(7) Provisions against Current Assets	(7) Stock of Raw Materials, Work in Progress & Finished Goods
(8) Provision for Taxation	(8) Prepaid Expenses
(9) Proposed Dividend (May be Current or Non-Current Liabilities)	(9) Accrued Incomes

### Non-Current Accounts

<i>Non-Current or Permanent Liabilities</i>	<i>Non-Current or Permanent Assets</i>
(1) Equity Share Capital	(1) Good will
(2) Preference Share Capital	(2) Land
(3) Debentures	(3) Building
(4) Long-Term Loans	(4) Plant and Machinery
(5) Share Premium	(5) Furniture and Fittings
(6) Share forfeited	(6) Trade Marks
(7) Profit and Loss Account	(7) Patent Rights
(8) Capital Reserve	(8) Long-Term Investments
(9) Capital Redemption Reserve	(9) Discount on Issue of Shares and Debentures
	(10) Preliminary Expenses
	(11) Other Deferred Expenses

### Fund Flow Statement

It is a statement summarizing the significant financial changes in items of financial position which have occurred between the two different balance sheet dates. This statement is prepared on the basis of "Working Capital" concept of funds. Fund flow Statement helps to measure the different sources of funds and application of funds from transactions involved during the course of business.

The fund flow statement also termed as Statement of Sources and Application of Fund, Where Got and Where Gone Out Statement, Inflow of Fund or Outflow of Fund Statement.

### Importance or Uses of Fund Flow Statement

Fund Flow Statements are prepared for financial analysis in order to meet the needs of people serving the following purposes:

- (1) It highlights the different sources and applications or uses of funds between the two accounting period.
- (2) It brings into light about financial strength and weakness of a concern.
- (3) It acts as a effective tool to measure the causes of changes in working capital.
- (4) It helps the management to take corrective actions while deviations between two balance sheet figure.
- (5) It is an instrument used by the investors for effective decisions at the time of their investment proposals.
- (6) It also presents detailed information about profitability, operational efficiency and financial affairs of a concern.
- (7) It serves as a guide to the management to formulate its dividend policy, retention policy and investment policy etc.
- (8) It helps to evaluate the financial consequences of business transactions involved in operational finance and investment.
- (9) It gives the detailed explanation about movement of funds from different sources or uses of funds during a particular accounting period.

#### Difference between Fund Flow Statement and Income Statement

<i>Fund Flow Statement</i>	<i>Income Statement</i>
(1) It explains the different sources and uses of funds during the particular period.	(1) It reveals the net profit or net loss in a particular period of time.
(2) No standard format is required for preparation of fund flow statement.	(2) As per the double entry book keeping, prescribed format is used for preparation of income statement.
(3) Fund Flow Statement considers both capital and revenue nature of income and expenditure.	(3) It considers only revenue nature of income and expenditure.
(4) It disclosed the exact flow of funds from operations. Thus, it is complementary to income statement.	(4) It is prepared not for fund flow statement.

#### Difference between Fund Flow Statement and Balance Sheet

<i>Fund Flow Statement</i>	<i>Balance Sheet</i>
(1) It presents significant financial Changes between two balance sheets.	(1) It is a statement that incorporates assets and liabilities prepared at the end of accounting period.
(2) It is prepared on the basis of Trading, Profit & Loss account and Balance sheet.	(2) It is prepared on the basis of Trial Balance.

<i>Fund Flow Statement</i>	<i>Balance Sheet</i>
(3) It provides additional information to the management to discharge its functions effectively.	(3) It explains the financial position of a concern as a whole in a particular period.
(4) Fund from operation, schedule of changes in working capital has to be required for preparation of fund flow statement.	(4) It is prepared after the Trading, Profit and Loss Account is completed.

### Limitations of Fund Flow Statement

Fund Flow Statement has suffered with the following limitations :

- (1) It is prepared on the basis of information related to historical in nature. It ignores to project future operations.
- (2) This statement does not focus on transactions involved in non-fund items.
- (3) It also ignores when transactions involved between current accounts or non-current accounts.
- (4) It does not provide any additional information to the management because financial statements are simply rearranged and presented.

### Preparation of Fund Flow Statement

Fund flow analysis involves the following important three statements such as :

- I. Fund From Operations
- II. Statement of Changes in Working Capital
- III. Fund Flow Statement.

### I. FUND FROM OPERATIONS

Fund From Operation is to be determined on the basis of Profit and Loss Account. The operating profit revealed by Profit and Loss Account represents the excess of sales revenue over cost of goods sold. In the true sense, it does not reflect the exact flow of funds caused by business operations. Because the revenue earned and expenses incurred are not in conformity with the flow of funds. For example, depreciation charges on fixed assets, write up of fixed assets or fictitious assets, any appropriations etc. do not cause actual flow of funds. Because they have already been charged to such profits. Hence, fund from operation is prepared to find out exact inflow or outflow of funds from the regular operations on the basis of items which have readjusted to the current profit or loss. The balancing amount of adjusted profit and loss account is described as fund from operations.

### Calculation of Fund From Operations

Fund from operations is calculated with the help of following adjustments. The adjustments may be shown in the specimen proforma of profit and loss account as given below :

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Amount Rs.</i>
Net Profit or Retained Earnings (Closing balance of P & L A/c as given in the Balance Sheet)		* * *
<i>Add</i> : Non-Fund and Non-Operating items which have already been debited to P & L A/c :		
(1) Depreciation and Depletion	* * *	
(2) Amortization of Fictious and Intangible Assets etc.		
(a) Good will, Patents written off		
(b) Discount on Issue of shares written off		
(c) Preliminary Expenses written off		
(d) Premium on redemption of debenture		
(3) Appropriation of Retained Earnings :		
Profit transfer to General Reserve	* * *	
Profit transfer to Sinking Fund		
Profit transfer to Contingency		
Provision for Taxation (not taken as current liability)		
Provision for Proposed Dividend (not taken as current liability) ]		
Loss on Sale of Fixed Assets		
Loss on Sale of Plant and Machinery		
Loss on Sales of Land and Building		
Loss on Sale of Furniture and Fixtures	* * *	* * *
<b>Total (A)</b>	* * *	* * *
<i>Less</i> : Non-Fund and Non-Operating items which have already been credited to P & L A/c :		
(1) Profit on sale of Fixed Assets	* * *	
Profit on sale of Land & Building		
Profit on sale of Plant & Machinery		
Profit on sale of Furniture & Fixtures		
(2) Appreciation or Revaluation of fixed assets	* * *	
(3) Dividend received on investment	* * *	
(4) Profit on redemption of Shares and Debentures	* * *	
(5) Excess provisions written back	* * *	
(6) Any other non-trading items already credited to P & L A/c ]	* * *	
(7) Net Profit or Retained Earnings (Opening balance of P & L A/c) ]	* * *	
<b>Total (B)</b>	* * *	* * *
<b>Fund From Operations (Total A – B)</b>		* * *

**Alternative Specimen Format**

The following is the specimen of adjusted profit and loss account to calculate fund from operations :

**Adjusted Profit and Loss Account**

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Depreciation on Fixed Assets		By Opening Balance of P & L A/c	
To Loss on Sale of Fixed Assets		By Profit on Sale of Fixed Assets	
To Loss on Sale Investments		By Excess provision written back	
To Goodwill written off		By Dividend received on investment	
To Discount on shares written off		By Revaluation of fixed assets	
To Transfer to reserve		By Fund From Operations	
To Preliminary expenses written off		(Balancing Figure)	
To Provision for Tax			
To Proposed Dividend			
To Closing Balance of P & L A/c			
	* * *		* * *

**Illustration: 1**

From the following Profit and Loss Account, Calculation fund from operation :

**Profit and Loss Account**

	<i>Rs.</i>		<i>Rs.</i>
To Rent	6,000	By Gross Profit b/d	50,000
To Salaries	14,000	By Transfers to General Reserve	7,000
To Advertisement	3,000	By Preliminary Expenses	1,000
To Office Expenses	2,000	By Profit on Sale of Investment	2,000
To Depreciation on Plant	5,000		
To Good will written off	3,000		
To Loss on Sales of Plant	2,000		
To Provision for Tax	4,000		
To Interim Dividend	3,000		
To Net Profit	18,000		
	60,000		60,000

**Solution:****Calculation of Fund From Operations**

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Amount Rs.</i>
Net Profit or Retained Earnings (Closing Balance of P & L A/c)		18,000
Add : Non-Fund or Non-Trading items already debited to P & L A/c :		
Depreciation on Plant	5,000	
Goodwill written off	3,000	
Loss on Sale of Plant	2,000	
Provision for Tax	4,000	
Interim Dividend	3,000	

Particulars	Amount Rs.	Amount Rs.
Preliminary Expenses	1,000	
Transfer to General Reserve	7,000	25,000
		43,000
<i>Less</i> : Non-Fund or Non-Trading items already Credited to P & L A/c :		
Profit on Sale of Investments	2,000	2,000
Fund From Operations		41,000

**Note :** Provision for tax and Interim Dividend are not treated as current liability.

### Alternatively

#### Adjusted Profit and Loss Account

To Depreciation on Plant	5,000	By Profit on sale of Investment	2,000
To Goodwill Written off	3,000	By Fund From Operations	41,000
To Loss on Sale of Plant	2,000	(Balancing figure)	
To Provision for Tax	4,000		
To Interim Dividend	3,000		
To Preliminary Expenses	1,000		
To Transfer General Reserve	7,000		
To Net Profit (Closing Balance of P & L A/c) }	18,000		
	43,000		43,000

### Illustration: 2

#### Calculate Fund from Operations from the following Profit and Loss Account

To Salaries	45,000	By Gross Profit b/d	2,00,000
To Rent & Rates	15,000	By Profit on Sale of Plant	10,000
To Office Expenses	15,000	By Dividend received on Investment }	4,000
To Administrative Expenses	20,000	By Preliminary Expenses	2,000
To General Expenses	5,000	By Transfer to General Reserve }	4,000
To Depreciation on Machinery	25,000		
To Depletion of Natural Resources	10,000		
To Depreciation on Building	5,000		
To Loss on Sale of Building	10,000		
To Good will Written off	10,000		
To Discount Written off	3,000		
To Advertisement Written off	5,000		
To Net Profit	52,000		
	2,20,000		2,20,000

**Solution:****Calculation of Fund from Operations**

<i>Particulars</i>	<i>Amount Rs</i>	<i>Amount Rs.</i>
<b>Net Profit or Retained Earnings</b> (Closing Balance of Profit & Loss A/c) ]		52,000
<b>Add : Non-fund or Non-Trading items</b> <b>already debited to P &amp; L A/c :</b>		
Depreciation on Plant & Machinery	25,000	
Depreciation on Building	5,000	
Depletion of Natural Resources	10,000	
Loss on Sale of Building	10,000	
Good will Written off	10,000	
Discount Written off	3,000	
Advertisement Written off	5,000	
Preliminary Expenses	2,000	70,000
		1,22,000
<b>Less : Non-Fund or Non-Operating items</b> <b>already credited to P &amp; L A/c :</b>		
Profit on Sale of Plant	10,000	
Dividend received on Investment	4,000	
Transfer to General Reserve	4,000	18,000
<b>Fund From Operations</b>		1,04,000

**Alternatively****Solution:****Adjusted Profit & Loss Account**

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Depreciation on Plant and Machinery ]	25,000	By Profit on Sale of Plant ]	10,000
To Depreciation on Building	5,000	By Dividend received on Investment ]	4,000
To Depletion of Natural Resources	10,000	By Transfer to General Reserve ]	4,000
To Loss on Sale of Building	10,000	By Fund from Operations ]	1,04,000
To Good will Written off	10,000	(Balancing figure) ]	
To Discount Written off	3,000		
To Advertisement Written off	5,000		
To Preliminary Expenses	2,000		
To Net Profit (Closing Balance) ]	52,000		
	1,22,000		1,22,000

**II. STATEMENT OF CHANGES IN WORKING CAPITAL**

It is also termed as Statement of Changes in Working Capital. Before preparation of fund flow statement, it is essential to prepare first the schedule of changes in working capital and fund from operations. Statement of changes in working capital is prepared on the basis of items in current assets and current liabilities of between two balance sheets. This statement helps to measure the movement or changes of working capital during a particular period. The term working capital refers to excess of current assets over

current liabilities. The working capital may be "Increase in working capital" or "Decrease in working capital." An increase in the amount of an item of current assets in the current year as compared to the previous year represents an increase in working capital. Similarly, a decrease in the amount of an item of current assets in the current year as compared to the previous year would represent decrease in working capital. In the same way over all changes in working capital is calculated and presented in the schedule of changes in working capital. The final result of Net Decrease in Working Capital refers to Source of Funds or Inflow of Funds. Like this, Net Increase in Working Capital represent Application of Fund or Uses of Funds.

### Principle or Rules for Preparation of Working Capital Statement

The following rules may be kept in mind while preparing working capital statement:

- |                                   |   |                           |
|-----------------------------------|---|---------------------------|
| (1) Increase in Current Asset     | → | Increases Working Capital |
| (2) Decrease in Current Asset     | → | Decreases Working Capital |
| (3) Increase in Current Liability | → | Decreases Working Capital |
| (4) Decrease in Current Liability | → | Increases Working Capital |

Specimen Form of Schedule of Changes in Working Capital :

The following is a specimen form may be used for preparation of schedule of changes in working capital.

### Schedule of Changes in Working Capital (or) Statement of Changes in Working Capital

<i>Particulars</i>	<i>Previous Year Rs.</i>	<i>Current Year Rs.</i>	<i>Effect on Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
<b>Current Assets :</b>				
Cash in Hand				
Cash at Bank				
Sundry Debtors				
Bills Receivable				
Short-Term Investments				
Stock				
Prepaid Expenses				
Outstanding Incomes				
<b>Total Current Assets (A)</b>	* * *	* * *		
<b>Current Liabilities :</b>				
Sundry Creditors				
Bills Payable				
Bank Overdraft				
Outstanding Expenses				
Short-Term Loans				
<b>Total Current Liabilities (B)</b>	* * *	* * *		
<b>Working Capital (A - B)</b>	* * *	* * *		
<b>Net Increase / Decrease In Working Capital</b> ]	* * *	—	—	* * *
<b>Total</b>	* * *	* * *	* * *	* * *

**Illustration: 3**

From the following Balance Sheet of Gupta Ltd., prepare Schedule of Changes in Working Capital:

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Creditors	55,000	83,000	Cash in Hand	15,000	10,000
Bills Payable	20,000	16,000	Cash at Bank	10,000	8,000
Share Capital	1,00,000	1,50,000	Debtors	1,60,000	2,00,000
General Reserve	7,000	8,000	Stock	77,000	1,09,000
Debenture	1,00,000	1,00,000	Bills Receivable	20,000	30,000
	2,82,000	3,57,000		2,82,000	3,57,000

**Solution:****Schedule of Changes in Working Capital**

<i>Particulars</i>	2002 Rs.	2003 Rs.	<i>Changes in Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
<b>Current Assets :</b>				
Cash in Hand	15,000	10,000	—	5,000
Cash at Bank	10,000	8,000	—	2,000
Debtors	1,60,000	2,00,000	40,000	—
Stock	77,000	1,09,000	32,000	—
Bills Receivable	20,000	30,000	10,000	—
Total (A)	2,82,000	3,57,000		
<b>Current Liabilities :</b>				
Creditors	55,000	83,000	—	28,000
Bills Payable	20,000	16,000	4,000	—
Total (B)	75,000	99,000		
Working Capital (A – B)	2,07,000	2,58,000		
Net Increase in Working Capital	51,000	—	—	51,000
	2,58,000	2,58,000	86,000	86,000

**Illustration: 4**

You are required to prepare a Schedule of changes in working capital from the following Balance sheet of Nancy Ltd., at the end of 2002 and 2003.

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Share Capital	50,000	75,000	Cash at Bank	15,000	25,000
General Reserve	25,000	30,000	Plant	50,000	70,000
Bill Payable	10,000	15,000	Building	50,000	60,000
Debenture	30,000	50,000	Stock	30,000	35,000
Trade Creditors	40,000	50,000	Bills Receivable	25,000	40,000
Short-Term Loans	30,000	40,000	Trade Debtors	15,000	30,000
	1,85,000	2,60,000		1,85,000	2,60,000

**Solution:****Schedule of Changes in Working Capital**

Particulars	2002 Rs.	2003 Rs.	Changes in Working Capital	
			Increase	Decrease
<b>Current Assets :</b>				
Cash at Bank	15,000	25,000	10,000	—
Stock	30,000	35,000	5,000	—
Bills Receivable	25,000	40,000	15,000	—
Trade Debtors	15,000	30,000	15,000	—
<b>Total (A)</b>	<b>85,000</b>	<b>1,30,000</b>		
<b>Current Liabilities :</b>				
Bills Payable	10,000	15,000	—	5,000
Trade Creditors	40,000	50,000	—	10,000
Short-Term Loans	30,000	40,000	—	10,000
<b>Total (B)</b>	<b>80,000</b>	<b>1,05,000</b>		
Working Capital (Total A – B)	5,000	25,000		
Net Increase in Working Capital	20,000	—	—	20,000
	25,000	25,000	45,000	45,000

**Illustration: 5**

From the following Balance Sheet of John Ltd. prepare a Schedule of changes in working capital:

**Balance Sheet**

Particulars	2002 Rs.	2003 Rs.
<b>Assets :</b>		
Cash Balances	30,000	40,000
Debtors	60,000	56,000
Stock	1,10,000	1,44,000
Building	1,60,000	2,00,000
Machinery	30,000	20,000
	<b>3,90,000</b>	<b>4,60,000</b>
<b>Liabilities :</b>		
Capital	1,26,000	2,00,000
Long-Term Loans	1,00,000	1,20,000
Sundry Creditors	84,000	78,000
Bank Overdraft	70,000	50,000
Outstanding Expenses	10,000	12,000
	<b>3,90,000</b>	<b>4,60,000</b>

**Solution:****Schedule of Changes in Working Capital**

Particulars	2002 Rs.	2003 Rs.	Changes in Working Capital	
			Increase	Decrease
<b>Current Assets :</b>				
Cash Balances	30,000	40,000	10,000	—
Debtors	60,000	56,000	—	4,000
Stock	1,10,000	1,44,000	34,000	—
<b>Total (A)</b>	<b>2,00,000</b>	<b>2,40,000</b>		
<b>Current Liabilities :</b>				
Sundry Creditors	84,000	78,000	6,000	—
Bank Overdraft	70,000	50,000	20,000	—
Outstanding Expenses	10,000	12,000	—	2,000
<b>Total (B)</b>	<b>1,64,000</b>	<b>1,40,000</b>		
Working Capital (Total A – B)	36,000	1,00,000		
Net Increase in Working Capital	64,000	—	—	64,000
	1,00,000	1,00,000	70,000	70,000

**III. FUND FLOW STATEMENT**

In the analysis and interpretation of financial statements fund flow statement is one of the important technique. The statement of changes in working capital is prepared with the help of current assets and current liabilities. Similarly, fund from operation is prepared on the basis of profit and loss account to find out the exact movement of funds in different operations. After preparing schedule of changes in working capital and fund from operations, at the last stage a comprehensive fund flow statement can be prepared on the basis of component of non-current assets, non-current liabilities of balance sheet and relevant information. In other words, this statement is prepared with the help of the changes in non-current assets and non-current liabilities of balance sheet.

**Components of Sources and Application of Funds**

The following are the components of different sources and applications of funds:

**Components of Sources of Funds**

- (1) Fresh Issue of Equity Share Capital.
- (2) Fresh Issue of Preference Share Capital.
- (3) Issue of Debentures and Bonds.
- (4) Long-Term Loans raised from bank, financial institutions and public.
- (5) Long-Term Loans on Mortgage.
- (6) Sale of Fixed Assets.
- (7) Sale of Long-Term Investments.
- (8) Non-Trading Incomes.
- (9) Fund From Operations.
- (10) Net Decrease in Working Capital (as per schedule of changes in working capital).

### Components of Applications of Funds

Generated funds from various sources may be utilized in the following ways for meeting the future productive programmes of the business:

- (1) Redemption of shares and debentures.
- (2) Repayment of loans raised from bank, financial institutions and public.
- (3) Purchase of Fixed Assets.
- (4) Purchase of Long-Term Investments.
- (5) Non-Trading Expenditure.  
Payment of Tax;  
Payment of Dividend.
- (6) Fund Lost in Operations.
- (7) Net Increase in Working Capital (as per schedule of changing in working capital).

### Specimen Form of Fund Flow Statement

The following are the two usual formats for preparation of Sources and Application of Fund is presented below:

- (1) Statement Form.
- (2) Account Form.

#### (1) Statement Form

#### Fund Flow Statement

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Amount Rs.</i>
<b>Sources of Funds :</b>		
Fund From Operations		
Issue of Share Capital		
Issue of Debentures		
Long-Term Loans		
Sale of Fixed Assets		
Sale of Investments		
Non-Trading Incomes		
Decrease in Working Capital (as per schedule of changes in working capital)	* * *	* * *
<b>Total Sources (or) Total Inflows (A)</b>		* * *
<b>Application or Uses of Funds :</b>		
Fund Lost in Operations		
Redemption of Shares		
Redemption of Debentures		
Purchase of Fixed Assets		
Repayment of Long-Term Investments		
Non-Trading Expenditure		
Payment of Tax		
Payment of dividend		
Increase in Working Capital (as per schedule of changes in working capital)	* * *	* * *
<b>Total Application or Total Outflows (B)</b>		* * *

**(2) Account Form****Fund Flow Statement**

<i>Sources of Funds</i>	<i>Amount Rs.</i>	<i>Application of Funds</i>	<i>Amount Rs.</i>
Fund From Operations Issue of Share Capital Issue of Debentures Long-Term Loans Sale of Fixed Assets Sale of Investments Non-Trading Incomes Decrease in Working Capital (As per schedule of changes in working capital)		Fund Lost in Operations Redemption of Shares Redemption of Debenture Purchase of Fixed Assets Repayment of Long-Term Loans Non-Trading Expenditure Payment of Tax Payment of Dividend Increase in Working Capital (as per schedule of changes in working capital)	
Total Inflow	***	Total Outflow	***

**Illustration: 6**

From the following Balance sheet of William & Co. Ltd., you are required to prepare a Schedule of Changes in Working Capital and Statement of Sources and Application of Funds.

**Balance sheet**

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Capital	80,000	85,000	Cash in Hand	4,000	9,000
P & L A/c	14,500	24,500	Sundry Debtors	16,500	19,500
Sundry Creditors	9,000	5,000	Stock	9,000	7,000
Long-Term Loans	—	5,000	Machinery	24,000	34,000
			Building	50,000	50,000
	1,03,500	1,19,500		1,03,500	1,19,500

**Solution:****Schedule of Changes in Working Capital**

<i>Particulars</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Changes in Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
<b>Current Assets :</b>				
Cash at Bank	4,000	9,000	5,000	—
Sundry Debtors	16,500	19,500	3,000	—
Stock	9,000	7,000	—	2,000
<b>Total (A)</b>	29,500	35,500		
<b>Current Liabilities :</b>				
Sundry Creditors	9,000	5,000	4,000	—
<b>Total (B)</b>	9,000	5,000		
Working Capital (Total A – B)	20,500	30,500		
Net Increase in Working Capital	10,000	—	—	10,000
	30,500	30,500	12,000	12,000

**Fund Flow Statement**

<i>Sources of Fund</i>	<i>Rs.</i>	<i>Application of Fund</i>	<i>Rs.</i>
Issue of Capital (80000 – 85000)	5,000	Purchase of Machinery (24,000 – 34,000)	10,000
Long-Term Loans	5,000	Net Increase in Working Capital	10,000
Fund From Operations (14,500 – 24,500)	10,000		
	20,000		20,000

**Illustration: 7**

From the following Balance sheet of RR & Co. Ltd., you are required to prepare (a) Schedule of Changes in Working Capital (b) Fund Flow Statement and (c) Fund From Operations.

**Balance Sheet**

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Equity Capital	1,00,000	1,00,000	Good Will	6,000	6,000
General Reserve	14,000	18,000	Patents	6,000	6,000
Profit & Loss A/c	16,000	13,000	Building	50,000	46,000
Bank Overdraft	3,000	2,000	Machinery	27,000	26,000
Sundry Creditors	5,000	3,400	Investments	10,000	11,000
Bills Payable	1,200	800	Stock	20,000	13,400
Provision for Taxation	10,000	11,000	Bills Receivable	12,000	13,200
Proposed Dividend	6,000	7,000	Debtors	18,000	19,000
Provision for Doubtful Debts	400	600	Cash at Bank	6,600	15,200
	1,55,600	1,55,800		1,55,600	1,55,800

**Additional Information**

- (1) Depreciation Charged on Machinery Rs. 4,000 and on Building Rs. 4,000.
- (2) Provision for Taxation of Rs. 19,000 was made during the year 2003.
- (3) Interim Dividend of Rs. 8,000 was Paid during the year 2003.

**Solution:****Calculation of Fund from Operations**

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Amount Rs.</i>
Profit and Loss A/c (Closing Balance of 2003)		13,000
Add : Non-Fund or Non-Trading items already Debited to P&L A/c :		
Depreciation on Machinery	4,000	
Depreciation on Building	4,000	
Interim Dividend Paid	8,000	
Transfer to General Reserve	4,000	

<i>Particulars</i>	<i>Amount</i>	<i>Amount</i>
Provision for Tax (See Note 1)	19,000	
Proposed Dividend	1,000	40,000
		53,000
<i>Less</i> : Non-Fund or Non-Trading items already Credited to P&L A/c :		
Profit and Loss A/c (Opening balance as per 2002)		16,000
Fund From Operations		37,000

### Schedule of Changes in Working Capital

<i>Particulars</i>	<i>2002</i> <i>Rs.</i>	<i>2003</i> <i>Rs.</i>	<i>Changes in Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
<b>Current Assets :</b>				
Cash at Bank	6,600	15,200	8,600	—
Debtors	18,000	19,000	1,000	—
Stock	20,000	13,400	—	6,600
Bills Receivable	12,000	13,200	1,200	—
<b>Total (A)</b>	<b>56,600</b>	<b>60,800</b>		
<b>Current Liabilities :</b>				
Bank Overdraft	3,000	2,000	1,000	—
Sundry Creditors	5,000	3,400	1,600	—
Provision for Doubtful Debts	400	600	—	200
Bills Payable	1,200	800	400	—
<b>Total (B)</b>	<b>9,600</b>	<b>6,800</b>		
Working Capital (Total A – B)	47,000	54,000		
Net Increase in Working Capital	7,000	—	—	7,000
	54,000	54,000	13,800	13,800

### Fund Flow Statement

<i>Sources of Fund</i>	<i>Rs.</i>	<i>Application of Funds</i>	<i>Rs.</i>
Fund From Operations	37,000	Purchase of Machinery	3,000
		Tax Paid (see Note 3)	18,000
		Investment Purchased	1,000
		(10,000 – 11,000) ]	
		Interim Dividend Paid	8,000
		Net Increase in Working	7,000
		Capital ]	
	37,000		37,000

### Machinery Account

To Balance b/d	27,000	By Depreciation	4,000
To Bank	3,000	By Balance c/d	26,000
(Purchase of Machinery balancing figure)			
	30,000		30,000

**Building Account**

To Balance b/d	50,000	By Depreciation	4,000
		By Balance c/d	46,000
	50,000		50,000

**Provision for Taxation**

To Bank	18,000	By Balance b/d	10,000
(Balancing figure)		By Provision for Taxation	19,000
To Balance c/d	11,000		
	29,000		29,000

**Illustration: 8**

From the following are the comparative Balance Sheet of Gupta & Co., you are required to prepare (a) Schedule of Changes in Working Capital (b) Fund Flow Statement and (c) Fund From Operations.

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Share Capital	90,000	1,00,000	Goodwill	12,000	10,000
General Reserve	14,000	18,000	Buildings	40,000	36,000
Profit & Loss A/c	19,500	12,000	Machinery	37,000	36,000
Provision for Taxation	16,000	17,000	Stock	30,000	25,400
Sundry Creditors	8,000	5,400	Sundry Debtors	20,000	22,200
Bills Payable	6,200	1,300	Cash at Bank	6,600	15,200
Provision for Doubtful Debts	1,900	2,100	Investments	10,000	11,000
	1,55,600	1,55,800		1,55,600	1,55,800

**Additional Information**

- (1) Depreciation charged on Machinery was Rs. 4000 and on building Rs. 4000.
- (2) Interim Dividend paid during 2003 was Rs. 7500.
- (3) Provision of Rs. 5000 was made for taxation during the 2003.

**Solution :****Calculation of Fund From Operations**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net Profit (Closing Balance)		12,000
Add : Non-fund or Non-operating items Which already Debited to P & L A/c :		
Good Will Written off	2,000	
Depreciation on Machinery	4,000	
Depreciation on Building	4,000	
Interim Dividend Paid	7,500	

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Transfer to General Reserve	4,000	21,500
		33,500
<i>Less</i> : Non-Fund or Non Operating items already Credited to P & L A/c :		
Net Profit (Opening Balance)		19,500
Fund From Operations		14,000

### Schedule of Changes in Working Capital

<i>Particulars</i>	2002 <i>Rs.</i>	2003 <i>Rs.</i>	<i>Changes in Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
<b>Current Assets :</b>				
Stock	30,000	25,400	—	4,600
Sundry Debtors ( <i>Less</i> : Provision For Doubtful Debts)	18,100	20,100	2,000	
Cash Balances	6,600	15,200	8,600	—
Total (A)	54,700	60,700		
<b>Current Liabilities :</b>				
Sundry Creditors	8,000	5,400	2,600	—
Bills Payable	6,200	1,300	4,900	—
Provision for Tax	16,000	17,000	—	1,000
Total (B)	30,200	23,700		
Working Capital (Total A – B)	24,500	37,000		
Net Increase in Working Capital	12,500	—	—	12,500
	37,000	37,000	18,100	18,100

### Fund Flow Statement

<i>Sources of Funds</i>	<i>Rs.</i>	<i>Application of Funds</i>	<i>Rs.</i>
Issue of Share Capital (90,000 – 1,00,000) ]	10,000	Purchase of Machinery	3,000
Funds From Operations	14,000	Purchase of Investments	1,000
		Interim Dividend Paid	7,500
		Net Increase in Working Capital ]	12,500
	24,000		24,000

### Machinery Account

To Balance b/d	37,000	By Depreciation	4,000
To Bank	3,000	By Balance c/d	36,000
(Purchase of Machinery Balancing figure)	40,000		40,000

**Building Account**

To Balance b/d	40,000	By Depreciation	4,000
		By Balance c/d	36,000
	40,000		40,000

**Illustration: 9**

From the following Balance sheet of X Y Z Ltd., on 31<sup>st</sup> Dec. 2002 and 2003, you are required to prepare (a) Fund From Operations (b) Schedule of Changes in Working Capital and (c) Fund Flow Statement.

**Balance Sheet**

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Bills Payable	20,000	22,000	Cash Balances	10,000	7,000
Creditors	20,000	22,000	Debtors	20,000	20,000
Ramesh's Loan	25,000	—	Bills Payable	10,000	30,000
Loan from Kannan	40,000	50,000	Stock	35,000	25,000
Equity Share Capital	1,00,000	1,00,000	Machinery	80,000	55,000
Preference Share Capital	25,000	53,000	Land	40,000	50,000
			Building	35,000	60,000
	2,30,000	2,47,000		2,30,000	2,47,000

**Additional Information**

- (1) During the year machine costing Rs. 10,000 (accumulated depreciation Rs. 3,000) was sold for Rs. 5,000.
- (2) The provision for depreciation against machinery on 1<sup>st</sup> Jan. 2003 was Rs. 25,000 and on 31<sup>st</sup> December was Rs. 40,000.
- (3) Net profit for the year 2003 amounted to Rs. 45,000.

**Solution:****Calculation of Fund From Operations**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net Profit (Closing Balance P & L A/c)		45,000
<i>Add : Non-Fund or Non-Operating items already debited to P &amp; L A/c</i>		
Loss on Sale of Machinery (see note 1)	2,000	
Depreciation on Machinery	18,000	20,000
		65,000
<i>Less : Non-Fund or Non-Operating items already credited to P &amp; L A/c</i>		
Fund From Operations	—	65,000

### Schedule of Changes in Working Capital

<i>Particulars</i>	2002 <i>Rs.</i>	2003 <i>Rs.</i>	<i>Changes in Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
<b>Current Assets :</b>				
Cash Balances	10,000	7,000	—	3,000
Bills Payable	10,000	30,000	20,000	—
Stock	35,000	25,000	—	10,000
<b>Total (A)</b>	<b>55,000</b>	<b>62,000</b>		
<b>Current Liabilities :</b>				
Bills Payable	20,000	22,000	—	2,000
Creditors	20,000	22,000	—	2,000
<b>Total (B)</b>	<b>40,000</b>	<b>44,000</b>		
Working Capital (Total A – B)	15,000	18,000		
Net Increase in Working Capital	3,000	—		3,000
	<b>18,000</b>	<b>18,000</b>	<b>20,000</b>	<b>20,000</b>

### Fund Flow Statement

<i>Sources of Funds</i>	<i>Rs.</i>	<i>Application of Funds</i>	<i>Rs.</i>
Fund from Operations	65,000	Ramesh Loan Repaid	25,000
Loan From Kannan	10,000	Drawings	17,000
Sale of Machinery (See Note)	5,000	Purchase of Land	10,000
		Purchase of Building	25,000
		Net Increase in Working Capital }]	3,000
	<b>80,000</b>		<b>80,000</b>

### Machinery Account

To Balance b/d	1,05,000	By Provision for depreciation on machinery sold }]	3,000
		By Bank	5,000
		By Loss on sale of machinery	2,000
		By Balance c/d	95,000
	<b>1,05,000</b>		<b>1,05,000</b>

### Provision for Depreciation on Machinery

To Machinery A/c	3,000	By Balance b/d	25,000
To Balance c/d	40,000	By P & L (depreciation Provided during the year – balancing figure) }]	18,000
	<b>43,000</b>		<b>43,000</b>

**Capital Account :**

	Rs.
Opening balance of Equity Share Capital	1,00,000
Opening balance of preference Share Capital	25,000
Net Profit during the year 2003	45,000
	1,70,000
<b>Less : Closing balance of Equity and Preference Share Capital</b> ]	<b>1,53,000</b>
(Rs. 1,00,000 to Rs. 53,000)	
Drawing	17,000

**Illustration: 10**

From the following Balance sheet of Mohan & Co. Ltd. as on 31<sup>st</sup> December 2002 and 2003, you are required to prepare: (a) Fund From Operations (b) A Schedule of Changes in Working Capital and (c) A Fund Flow Statement:

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Sundry Creditors	50,000	48,000	Cash in hand	25,000	22,000
Bills Payable	40,000	39,000	Cash at Bank	25,000	18,000
Bank Overdraft	13,000	90,000	Sundry Debtors	30,000	28,000
Outstanding Expenses	13,000	22,000	Bills Receivable	47,000	45,000
15% Debentures	90,000	70,000	Short-Term Investments	1,10,000	84,000
Depreciation Fund	40,000	44,000	Prepaid Expenses	1,000	2,000
General Reserve	60,000	50,000	Inventories	92,000	1,06,000
Profit and Loss A/c	16,000	23,000	Land & Buildings	50,000	50,000
Equity Share Capital	1,00,000	1,00,000	Furniture	50,000	50,000
Preference Share Capital	80,000	80,000	Plant & Machinery	72,000	8,000
	5,02,000	4,85,000		5,02,000	4,85,000

**Additional Information**

- (1) Dividend was paid in cash was Rs. 18,000
- (2) New machinery for Rs. 20,000 was purchased but old machinery costing Rs. 12,000 was sold for Rs. 4,000, accumulated depreciation was Rs. 6,000
- (3) Rs. 20,000, 15% debentures were redeemed by purchase from open market @ Rs. 96
- (4) Rs. 10,000 was debited to General reserve for settlement of previous tax liability
- (5) Rs. 26,000 investments were sold at book value.

**Solution:****(1) Statement of Changes in Working Capital**

Particulars	2002 Rs.	2003 Rs.	Change in Working Capital	
			Increase	Decrease
<b>Current Assets :</b>				
Cash in hand	25,000	22,000	-	3,000
Cash at Bank	25,000	18,000	-	7,000
Sundry Debtors	30,000	28,000	-	2,000
Bills Receivable	47,000	45,000	-	2,000
Short-Term Investment	1,10,000	84,000	-	26,000
Prepaid Expenses	1,000	2,000	1,000	-
Inventories	92,000	1,06,000	14,000	-
<b>Total Current Assets (A)</b>	<b>3,30,000</b>	<b>3,05,000</b>		
<b>Current Liabilities :</b>				
Sundry Creditors	50,000	48,000	2,000	-
Bills Payable	40,000	39,000	1,000	-
Bank Overdraft	13,000	9,000	4,000	-
Outstanding Expenses	13,000	22,000	-	9,000
<b>Total Current Liabilities (B)</b>	<b>1,16,000</b>	<b>1,18,000</b>		
Working Capital (A – B)	2,14,000	1,87,000		-
Net Decrease in Working Capital		27,000	27,000	-
	2,14,000	2,14,000	49,000	49,000

**(2) Calculation of Fund From Operations**

Particulars	Amount Rs.	Amount Rs.
Profit & Loss A/c (Closing Balance)		
Add : Non-Fund or Non-Operating items already been debited to P & L A/c		23,000
Depreciation on Machinery	10,000	
Loss on Sale of Machinery	2,000	
Dividend Paid	18,000	30,000
		53,000
Less : Non-Fund and Non-Operating items already been credited to P & L A/c		
Profit on redemption of debentures	800	
Profit and Loss A/c (Opening balance)	16,000	16,800
<b>Fund From Operations</b>		<b>36,200</b>

**Dr.****(3) Fund Flow Statement****Cr.**

Sources of Fund	Amount Rs.	Application of Funds	Amount Rs.
Sale of Machinery	4,000	Dividends Paid	18,000
Fund From Operations	36,200	Purchase of Machinery	20,000
Net Decrease in Working Capital	27,000	Tax Paid	10,000
		Debenture Redeemed	19,200
	67,200		67,200

**Dr. (4) Machinery Account Cr.**

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Balance b/d	72,000	By Bank (Sold)	4,000
To Bank (New Machinery)	20,000	By Depreciation Fund (A/c)	6,000
		By Profit & Loss A/c (Loss) (6,000 + 4,000 - 12,000) ]	2,000
		By Balance c/d	80,000
	92,000		92,000

**Dr. (5) Depreciation Fund Account Cr.**

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Machinery A/c	6,000	By Balance b/d	40,000
To Balance c/d	44,000	By Profit & Loss A/c (Depreciation)	10,000
	50,000		50,000

**Illustration: 11**

From the following Balance sheet of Hari & Co. Ltd. as on 31<sup>st</sup> December 2002 and 2003, you are required to prepare: (a) Fund From operations (b) A Schedule of Changes in Working Capital and (c) A Fund Flow Statement :

**Balance Sheet**

<i>Liabilities</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>	<i>Assets</i>	<i>2002 Rs.</i>	<i>2003 Rs.</i>
Equity Share Capital	2,00,000	2,00,000	Fixed Assets at Cost	10,00,000	10,00,000
7% Preference Share Capital	2,00,000	3,00,000	Less : Depreciation	2,60,000	3,10,000
				7,10,000	6,90,000
Capital Reserve		20,000	Trade Investments	1,10,000	90,000
General Reserve	1,80,000	2,10,000	Sundry Debtors	1,50,000	2,00,000
Debenture	3,00,000	2,00,000	Bills Receivable	1,70,000	2,50,000
Profit and Loss A/c	70,000	90,000	Preliminary Expenses	30,000	20,000
Sundry Creditors	50,000	50,000			
Bills Payable	30,000	20,000			
Bank Overdraft	50,000	50,000			
Provision for Income Tax	80,000	60,000			
Proposed Dividend	40,000	50,000			
	12,00,000	12,50,000		12,00,000	12,50,000

**Additional Information**

- (1) During the year 2003 depreciation provided for Rs. 1,00,000
- (2) Redeemed the debentures at Rs. 105
- (3) Sold one machine for Rs. 4,00,000 the cost of the machine was Rs. 80,000 and the depreciation provided for it amounted to Rs. 30,000

- (4) Sold some trade investments at profit which was credited to capital reserve
- (5) Decided to value the stock at cost whereas previously the practice was value stock at cost less 10%. The opening stock according to books was Rs. 63,000. The stock on 31<sup>st</sup> December 2003 was correctly valued at cost.

**Solution:**

**(1) Schedule of Changes in Working Capital**

Particulars	2002 Rs.	2003 Rs.	Changes in Working Capital	
			Increase	Decrease
<b>Current Assets :</b>				
Sundry Debtors	1,50,000	2,00,000	50,000	-
Bills Receivable	1,70,000	2,50,000	80,000	-
Inventory	7,000	-	-	7,000
<b>Total Current Assets (A)</b>	<b>3,27,000</b>	<b>4,50,000</b>		
<b>Current Liabilities :</b>				
Sundry Creditors	50,000	50,000	-	-
Bills Payable	30,000	20,000	10,000	-
Bank Overdraft	50,000	50,000	-	-
<b>Total Current Liabilities (B)</b>	<b>1,30,000</b>	<b>1,20,000</b>		
Working Capital (A – B)	1,97,000	3,30,000		
Net Increase in Working Capital	1,33,000	-	-	1,33,000
<b>Total</b>	<b>3,30,000</b>	<b>3,30,000</b>	<b>1,40,000</b>	<b>1,40,000</b>

**(2) Calculation of Fund From Operations**

Particulars	Rs.	Rs.
Net Profit (Closing Balance)		90,000
<b>Add : Non-Fund and Non-operating items which already been debited to profit and loss A/c :</b>		
Loss on sale of machinery	10,000	
Loss on redemption of debenture	5,000	
Depreciation provided	1,00,000	
Preliminary expenses (Rs. 30,000 – Rs. 20,000)      ]	10,000	
Proposed dividend	50,000	
Transfer to General Reserve (Rs. 2,10,000 – Rs. 1,80,000)      ]	30,000	
Provision for income tax	60,000	2,65,000
		3,55,000
<b>Less : Non-Fund and Non-Operating items which already credited to Profit and Loss A/c :</b>		
Opening Stock Written off	70,000	
Net Profit (Opening balance)	70,000	77,000
<b>Fund From Operations</b>		<b>2,78,000</b>

## Fund Flow Statement

<i>Sources of Funds</i>	<i>Rs.</i>	<i>Application of Funds</i>	<i>Rs.</i>
Equity Share Capital	-	Purchase of Fixed Assets	1,00,000
7% Preference Share Capital (2,00,000 – 3,00,000)	1,00,000	Redemption of Debenture	1,05,000
		Proposed Dividend for 2002 (Assumed to be paid)	40,000
Sale of Trade Investments (Rs. 1,10,000 + 20,000 – 90,000)	40,000	Provision for Taxation for (2002 assumed to be paid)	80,000
Sale of Machine	40,000	Net Increase in Working Capital	1,33,000
Fund From Operations	2,78,000		
	4,58,000		4,58,000

## Dr. Fixed Assets Account Cr.

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Balance b/d	10,00,000	By Cash (Sale)	40,000
To Cash (Purchase)		By Accumulated depreciation	30,000
Balancing figure	1,00,000	By Adjusted P & L (Loss on Sale)	10,000
		By Accumulated depreciation (Fixed Asset Written off)	20,000
		By Balance c/d	10,00,000
	11,00,000		11,00,000

## Dr. Debenture Account Cr.

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Bank	1,05,000	By Balance b/d	3,00,000
To Balance c/d	2,00,000	By Adjusted P & L A/c (Loss on redeemed)	5,000
	3,05,000		3,05,000

## Dr. Accumulated Depreciation Account Cr.

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Fixed Assets (Depreciation on Machinery Sold)	30,000	By Balance b/d	2,60,000
To Fixed Assets Written off (Rs. 7,10,000 – Rs. 6,90,000)	20,000	By Adjusted P & L A/c (Depreciation during the year)	1,00,000
To Balance c/d	3,10,000		
	3,60,000		3,60,000

**Illustration: 12**

The following summarized balance sheets are given to you by Pilh & Co. Ltd. :

**Balance Sheet**

<i>Liabilities</i>	2002	2003	<i>Assets</i>	2002	2003
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Share Capital	10,00,000	11,00,000	Fixed Assets		
Reserves	3,50,000	3,00,000	Less : Depreciation	11,70,000	16,90,000
Profit & Loss A/c	80,000	70,000	Investments	2,00,000	1,50,000
Loans @ 10%	6,00,000	8,00,000	Sundry Debtors	5,00,000	4,50,000
Provision for tax	2,10,000	2,40,000	Stock in Trade	4,50,000	3,90,000
Provision for Doubtful debts	30,000	20,000	Cash at Bank	90,000	60,000
Sundry Creditors	3,10,000	2,90,000	Goodwill	2,70,000	2,00,000
Proposed Dividend	1,00,000	1,20,000			
	12,00,000	29,40,000		26,80,000	29,40,000

**Additional Information**

- (1) Investments were sold during 2003 at a loss of 20% on the cost
- (2) An item of fixed assets, cost Rs.70,000, depreciation provided for Rs.66,000 had to be discarded in 2003 without any scrap value
- (3) Depreciation provided during 2003 came to Rs.1,80,000
- (4) The increase in share capital was because of issue of bonus shared out of reserves. Prepare the fund flow statement for the year ended 31<sup>st</sup> December 2003.

**Solution:****Statement of Changes in Working Capital**

<i>Particulars</i>	2002 <i>Rs.</i>	2003 <i>Rs.</i>	<i>Effect on Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
Current Assets :				
Sundry Debtors	5,00,000	4,50,000	-	50,000
Stock in Trade	4,50,000	3,90,000	-	60,000
Cash at Bank	90,000	60,000	-	30,000
Total Current Assets (A)	10,40,000	9,00,000		
Current Liabilities :				
Sundry Creditors	3,10,000	2,90,000	20,000	-
Provision for Tax	2,10,000	2,40,000	-	30,000
Provision for doubtful debts	30,000	20,000	10,000	-
Total Current Liabilities (B)		5,50,000	5,50,000	
Working Capital (A – B)		4,90,000	3,50,000	
Net Decrease in Working Capital		1,40,000	14,000	
	4,90,000	4,90,000	1,70,000	1,70,000

## Fund Flow Statements

<i>Sources of Fund</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
New Loans raised (8,00,000 – 6,00,000)	2,00,000	Fixed Assets acquired	7,04,000
Sale of Investments	40,000	Dividend Paid	1,00,000
Net Decrease in Working Capital	1,40,000		
Fund From Operations	4,24,000		
	8,04,000		8,04,000

## Calculation of Funds From Operations

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Amount Rs.</i>
Profit & Loss A/c (Closing Balance)		70,000
<i>Add</i> : Non-fund and Non-operating items which have already been debited to P & L A/c:		
Proposed dividend for 2003	1,20,000	
Loss on investment 20% of Rs.50,000	10,000	
Loss on fixed assets scrapped	4,000	
Depreciation provided	1,80,000	
Goodwill Written off	70,000	
Transfer to reserves	50,000	4,34,000
		5,04,000
<i>Less</i> : Non-fund and Non-operating items which have already been credited to P & L A/c:		
Profit & Loss A/c (opening balance)	80,000	80,000
Fund From Operations		4,24,000

## Fixed Assets Account

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Balance b/d	11,70,000	By Book Value of item Scrapped	4,000
To Bank A/c (Purchase of new assets)	7,04,000	By Depreciation	1,80,000
		By Balance c/d	16,90,000
	18,74,000		18,74,000

## Movement of Reserves : Rs.

Opening Balance of Reserves	3,50,000
<i>Less</i> : Utilised for bonus shares	1,00,000
	<u>2,50,000</u>
Closing Balance of Reserves	<u>3,00,000</u>
Addition during the year	<u>50,000</u>

### QUESTIONS

1. What is mean by Fund Flow Statement?
2. Explain the Changes of Financial Position.
3. Briefly explain the Flow of Funds and No Flow of Funds. Illustrate with numerical examples.
4. What are the components of Flow of Fund?
5. What do you understand by Fund Flow Statement? How is it Prepared?
6. Explain the importance of Fund Flow Statement.
7. Distinguish between
  - (a) Fund Flow Statement and Income Statement
  - (b) Fund Flow Statement and Balance Sheet
8. Explain the limitations of Fund Flow Statement.
9. Explain the procedure for preparation of Fund Flow Statement.
10. What do you understand by Fund From Operations?
11. What is meant by Schedule of Changes in Working Capital How is it prepared?

### PRACTICAL PROBLEMS

(1) From the following Balance sheet of X Y & Co. as on 31<sup>st</sup> Dec. 2002 and 2003, you are required to prepare Statement of Changes in Working Capital.

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Equity Share Capital	1,00,000	1,25,000	Cash Balances	30,000	47,000
Preference Share Capital	1,00,000	1,25,000	Debtors	60,000	60,000
Creditors	40,000	20,000	Bills Payable	60,000	55,000
Bills Payable	30,000	25,000	Stock	40,000	45,000
Retained Earnings	10,000	23,000	Short-Term Loan	40,000	45,000
			Building	50,000	66,000
	2,80,000	3,18,000		2,80,000	3,18,000

[Ans : Net Increase in working capital Rs. 47,000].

(2) From the following information, you are required to prepare: (a) Fund From Operations (b) Statement of Changes in Working Capital and (c) Fund Flow Statement:

**Comparative Balance Sheet**

<i>Particulars</i>	2002 Rs.	2003 Rs.
<i>Liabilities and Capital :</i>		
Share Capital 50,000	40,000	
Reserve and Surplus	15,000	5,000
Secured Loans	35,000	40,000
Current Liabilities	50,000	60,000
<b>Total Liabilities and Capital</b>	<b>1,50,000</b>	<b>1,45,000</b>
<i>Assets :</i>		
Fixed Assets	31,000	30,000
Investments	1,500	—
Cash Balances	2,500	1,250
Stock	75,000	78,750
Sundry Debtors	40,000	35,000
<b>Total Assets</b>	<b>1,50,000</b>	<b>1,45,000</b>

**Additional Information**

- (a) The net profit for the year after adjustments Rs. 1,00,000.
- (b) Additional fixed assets during the year Rs. 4,000 and depreciation for the year Rs. 3,000.

[Ans : (a) Fund From Operations Rs.1,30,000;

(b) Statement of changes in working capital Rs. 12,500 (Net Increase in Working Capital);

(c) Fund Flow Statement Rs. 23,000].

- (3) From the following particulars, you are required to prepare Schedule of Changes:

## Working Capital

Particulars	2002 Rs.	2003 Rs.
<i>Capital and Liabilities :</i>		
Share Capital	15,000	
Trade Creditors	5,300	3,500
Profit and Loss A/c	700	1,550
<b>Total Liabilities</b>	<b>21,000</b>	<b>23,800</b>
<i>Assets :</i>		
Plant and Machinery	3,500	5,000
Bills Payable	6,800	
Trade Debtors	9,050	8,500
Cash Balances	2,400	3,500
<b>Total Assets</b>	<b>23,800</b>	

[Ans : Increase in Working Capital Rs. 31,000].

- (4) Calculate funds from operations from the following Particulars:

	Rs.
Transfer to General Reserve	5,000
Loss on Sale of Investments	5,000
Depreciation on Machinery	10,000
Depreciation on Building	4,000
Discount on Issue of Debenture	15,000
Provision for Taxation	10,000
Proposed Dividend	20,000
Closing Balance of P & L A/c	30,600
Opening Balance of P & L A/c	30,500

[Ans : Funds From Operations Rs. 69,100].

- (5) The following Balance Sheets of X and Y Ltd. for the year 2002 and 2003, you are required to prepare (a) Funds from Operations (b) Statement of Changes in Working Capital and (c) Funds Flow Statement:

## Balance Sheet

Liabilities	2002 Rs.	2003 Rs.	Assets	2002 Rs.	2003 Rs.
Share Capital	50,000	50,000	Good will	6,000	6,000
General Reserve	7,000	9,000	Buildings	20,000	18,000
Profit & Loss A/c	8,000	6,500	Machinery	18,500	18,000
Trade Creditors	4,000	2,700	Investments	5,000	5,500
Bills Payable	600	400	Stock	15,000	11,700
Provision for Taxation	8,000	9,000	Bills Receivable	1,000	1,600
Provision for Doubtful Debts	200	300	Trade Debtors	9,000	9,500
			Cash Balance	3,300	7,600
	<b>77,800</b>	<b>77,900</b>		<b>77,800</b>	<b>77,900</b>

## Additional Information

- Depreciation charged on machinery was Rs. 2000 and on Building was Rs. 2000.
- Provision for taxation of Rs. 9,500 was made during the year 2003.
- Interim dividend of Rs. 4,000 was paid during the year 2003.

[Ans : Funds From Operations Rs. 18,000; Statement of Changes in Working Capital Rs. 3,500; Fund Flow Statements Rs. 18,000].

(6) Following are the summarized Balance sheet of ABC Ltd. as on 31<sup>st</sup> December 2002 and 2003

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Share Capital	2,00,000	2,50,000	Land & Buildings	2,00,000	1,90,000
General Reserves	50,000	60,000	Machinery & Plant	1,50,000	1,69,000
Profit & Loss A/c	30,500	30,600	Stock	1,00,000	74,000
Bank Loan	70,000	-	Sundry Debtors	80,000	64,200
Sundry Creditors	1,50,000	1,35,200	Cash	500	600
Provision for taxation	30,000	35,000	Bank	-	8,000
			Goodwill	-	5,000
	5,30,500	5,10,000		5,30,500	5,10,000

**Additional Information**

(1) During the year ended 31<sup>st</sup> December 2003

(a) Dividend was paid Rs. 23,000

(b) Assets of another company were purchased for a consideration of Rs. 50,000 payable in shares. The following assets were purchased : stock Rs. 20,000; machinery Rs. 25,000

(c) Machinery was purchased for Rs. 8,000

(d) Depreciation written off : Building Rs. 10,000 ; Machinery Rs. 14,000

(e) Income Tax paid during the year Rs. 28,000 ; provision of Rs. 33,000 was charged to profit and loss A/c

Prepare a statement of sources and application of funds for the year ended 31<sup>st</sup> December 2003.

[Ans : Fund From Operations Rs. 90,100;

Decrease in Working Capital Rs. 18,900;

Sources and Applications of fund Rs. 1,29,000]

(7) The Balance sheet of Jai & Co. Ltd. as at 31<sup>st</sup> December 2002 and 2003 are given below :

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Share Capital	1,00,000	1,50,000	Freehold Land	1,00,000	1,00,000
Share Premium	-	50,000	Plant at Cost	1,04,000	1,00,000
General Reserve	50,000	60,600	Furniture at Cost	7,000	9,000
Profit & Loss A/c	10,000	17,000	Investment at Cost	60,000	80,000
6% Debentures	70,000	50,000	Sundry Debtors	30,000	70,000
Provision for			Stock	60,000	65,000
Depreciation on Plant	50,000	56,000	Cash at Bank	30,000	45,000
Provision for					
Depreciation on furniture	70,000	6,000			
Provision for taxation	20,000	30,000			
Sundry Creditors	86,000	95,000			
	3,91,000	4,69,000		3,91,000	4,69,000

A plant purchased for Rs.40,000 (Depreciation Rs.2,000) was sold for cash Rs.800 on 30<sup>th</sup> September 2003. On 30<sup>th</sup> June 2003 an item of furniture was purchased for Rs.2,000. These were the only transactions concerning fixed assets during 2003.

Depreciation was provided on plant at 8% on cost (the sold out item is not taken in to consideration) and on furniture at 12 ½ % on average cost. A dividend of 22 ½ % on original shares was paid.

Prepare a schedule of changes in working capital and also a statement of sources and application of funds during 2003.

[Ans : Net increase in Working Capital Rs. 41,000

Fund From Operations Rs. 49,700

Sources and Application of fund Rs. 1,05,500]

(8) From the following Balance sheet of XY & Co. Ltd. as on 31<sup>st</sup> December 2002 and 2003, you are required to prepare a funds flow statement showing change in working capital.

## Balance Sheet

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Equity Share Capital	3,00,000	4,00,000	Buildings	2,50,000	3,00,000
Preference Share Capital	2,00,000	-	Machinery	3,00,000	3,20,000
Capital Redemption Reserve	-	1,00,000	Furniture	20,000	18,000
General Reserve	2,00,000	1,20,000	Investments	1,00,000	1,50,000
Share Premium	30,000	30,000	Stock	3,00,000	2,50,000
Profit and Loss A/c	1,20,000	1,80,000	Debtors	1,40,000	2,00,000
10% Debenture	2,00,000	3,00,000	Cash at Bank	20,000	32,000
Creditors	80,000	1,40,000			
	11,30,000	12,70,000		11,30,000	12,70,000

## Additional Information

- (1) Preference share were redeemed at 10% premium
- (2) Rs.20,000 was transferred to reserve fund from profit and loss account
- (3) Investment (book value Rs. 40,000) were sold for Rs. 70,000
- (4) Depreciation provided on building, machinery and furniture Rs. 20,000, Rs. 30,000 and Rs. 2,000 respectively.
- (5) Depreciation paid Rs. 50,000 and income tax paid Rs. 45,000

[Ans : Net Decrease in Working Capital Rs. 38,000  
Fund From Operations Rs. 2,17,000  
Sources and Application Funds Rs. 5,25,000]

(9) From the following Balance Sheet of Saxena & Co. Ltd. as on 31<sup>st</sup> December 2002 and 2003, you are required to prepare the Fund Flow Statement.

## Balance Sheet

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Share Capital	10,00,000	10,00,000	Land & Building at Cost	6,00,000	6,00,000
Capital Reserve	50,000	50,000	Plant & Machinery at Cost	3,30,000	4,50,000
Long-Term Loans	5,00,000	6,50,000	Furniture at Cost	3,00,000	3,00,000
Sundry Creditors	6,00,000	7,85,000	Stock in Trade	4,10,000	5,60,000
			Sundry Debtors	3,40,000	2,10,000
			Cash at Bank	20,000	5,000
			Profit & Loss A/c	1,50,000	3,60,000
	21,50,000	24,85,000		21,50,000	24,85,000

## Additional Information

During the year 2003 Depreciation provided on Land and Building was Rs. 50,000; Plant and Machinery was Rs. 50,000 and Furniture was Rs. 15,000.

(10) The following are the summarized Balance sheet of Gupta & Co. Ltd. as at 31<sup>st</sup> December 2002 and 2003, you are required to prepare a statement showing the sources and application of funds for the year 2003 and a schedule setting out changes in working capital

## Balance Sheet

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Share Capital	2,00,000	2,60,000	Goodwill	-	20,000
Profit & Loss A/c	39,690	41,220	Plant & Machinery	1,12,950	1,16,200
General Reserve	50,000	50,000	Buildings	1,48,500	1,44,250
Tax Provision	40,000	50,000	Stock	1,11,040	97,370
Bank Overdraft	59,510	-	Sundry Debtors	87,490	73,360

Bills Payable	33,780	11,525	Cash at Bank	2,500	2,700
Sundry Creditors	39,550	41,135			
	4,62,480	3,53,880		4,62,480	3,53,880

**Additional Information**

- (1) During the year 2003 an interim dividend of Rs. 26,000 was paid
- (2) The assets of another company were purchased for Rs. 60,000 payable in fully paid share of Gupta & Co. Ltd. These assets include stock Rs. 22,000 and machinery Rs.18,000 p.a. In addition sundry machinery amounted to Rs. 5,600.
- (3) Income tax paid during the year for Rs. 25,000
- (4) Net profit for the year before tax was Rs. 62,530

[Ans : Increase in Working Capital Rs. 42,530  
Fund From Operations Rs. 77,130  
Total Fund Flow Statement Rs. 1,37,130]

(11) The summarized balance sheet of Karunya & Co. Ltd. as at 31<sup>st</sup> December 2002 and 2003, you are required to prepare a statement of sources and application of funds.

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Share Capital	4,50,000	4,50,000	Land & Building	2,00,000	1,00,000
General Reserve	3,00,000	3,10,000	Plant & Machinery	2,00,000	1,20,000
Profit & Loss A/c	56,000	68,000	Investments	50,000	60,000
Sundry Creditors	1,68,000	1,34,000	Stock	2,40,000	2,10,000
Provision for Taxation	75,000	10,000	Sundry Debtors	2,10,000	4,55,000
Mortgage Loan	-	2,70,000	Bank Balances	1,49,000	1,97,000
	10,49,000	12,42,000		10,49,000	12,42,000

**Additional Information**

- (1) Investment costing Rs. 8,000 were sold during the year 2003 for Rs. 8,500
- (2) Provision for tax made during the year was Rs. 9,000
- (3) During the year part of the land and buildings costing Rs. 10,000 were sold for Rs. 12,000 and the profit was included in profit and loss account and
- (4) Dividend paid during the year announced to Rs. 40,000

[Ans : Fund From Operations Rs. 1,38,500  
Total Sources Rs. 4,29,000  
Applications Rs. 1,32,000]

(12) Prepare a fund flow statement of Kumar & Co. Ltd. for the year 2003 from the following information :

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Bills Payable	15,000	12,000	Cash at Bank	40,000	44,400
Capital	35,000	43,500	Bills Receivable	10,000	20,700
Bonds Payable	22,000	22,000	Stock	15,000	15,000
Bonds Payable Discount	(2,000)	(1,800)	Land & Building	20,000	16,000
Retained Earnings	15,000	19,500	Plant & Machinery	15,000	17,000
Sundry Creditors	15,000	15,000	Accumulated Depreciation	5,000	2,800
			Patents and Trade Marks	1,000	900
	1,00,000	1,15,200		1,00,000	1,15,200

**Additional Information**

- (1) Income for the period Rs. 10,000
- (2) The building that costs Rs. 4,000 and which had a book value of Rs. 1,000 was sold for Rs. 1,400
- (3) The depreciation charged for the period was Rs. 800
- (4) There was an issue of capital stock Rs. 5,000

(5) Cash dividends Rs. 2,000 and stock dividend of Rs. 3,500 were declared.

[Ans : Net Increase in Working Capital Rs. 13,100  
Fund From Operational Rs. 10,700  
Total of Fund Flow Statement Rs. 17,100]

(13) From the following Balance sheet of Ramasamy & Co. Ltd. as on 31<sup>st</sup> December 2003 you are required to prepare a Fund Flow Statement:

**Balance Sheet**

<i>Liabilities</i>	2002 Rs.	2003 Rs.	<i>Assets</i>	2002 Rs.	2003 Rs.
Equity Share Capital	3,00,000	3,50,000	Fixed Assets	5,10,000	6,20,000
Preference Share Capital	2,00,000	1,00,000	Investments	30,000	80,000
10% Debenture	1,00,000	2,00,000	Sundry Creditors	40,000	75,000
Reserves	1,10,000	2,70,000	Stock	1,00,000	2,00,000
Provision for Doubtful Debts	10,000	15,000	Bills Receivable	1,00,000	1,00,000
Sundry Creditors	35,000	45,000	Discount on Debenture	10,000	5,000
Bills Payable	35,000	1,00,000			
	7,90,000	10,80,000		7,90,000	10,80,000

**Additional Information**

- (1) Provision for depreciation stood at Rs.1,50,000 on 31<sup>st</sup> December 2002 and at Rs.1,90,000 on 31<sup>st</sup> December 2003.
- (2) During the year 2003, a machine costing Rs.70,000 (book value Rs. 40,000) was disposed off for Rs. 25,000
- (3) Preference share redemption was carried out at a premium of 5% on 1<sup>st</sup> January 2003 and
- (4) Dividend @ 15% was paid on equity shares for the year 2002.

[Ans : Fund From Operations Rs. 2,34,000  
Net Increase in Working Capital Rs. 55,000  
Total Flow of Funds Rs. 4,84,000]