Chapter–5

Fund Flow Statement (FFS)

LEARNING OBJECTIVES

In this chapter we will study:

Introduction

Preparation of Fund Flow Statement (FFS)

- Preparation of FFS on the basis of total resource
- Preparation of FFS on the basis of Net Working Capital (NWC)
- Preparation of FFS on the basis of Cash (CFS)

Difference between FFS and CFS (Cash Flow Statement)

Difference between FFS and Income Statement

Difference between FFS and Balance Sheet

5.1 INTRODUCTION

- When we move from one balance sheet to another balance sheet, the picture of assets and liabilities get changed. There may be several reasons to explain, as income statement, which deals only with incomes and expenses, is silent about change in assets and liabilities. This change can be explained correctly with the help of FFS, because FFS depicts the change in assets and liabilities during the financial year *i.e.* between two successive balance sheets. That is why FFS is also referred as **statement of change in financial position (or statement of change in assets and liabilities)**. Financial position means position of assets and liabilities.

  Thus FFS is a supplementary statement in addition to statutorily required financial statements *viz.* Balance Sheet and Income Statement.
- FFS represents flow of fund (fund inflow *i.e.,* sources of fund and fund outflow *i.e.* application of fund) through business organization during financial year *i.e.* between two successive balance sheets.

  Thus FFS bridges the gap between two successive balance sheets and is dynamic in nature whereas balance sheet is static in nature as it represents position of assets and liabilities at a given point of time.
- Almost all the big companies prepare their FFS to bring transparency in their accounting information as FFS provides useful information like, why the concerned organization has not paid the dividend in case it has earned a huge profit. FFS also helps in fundamental analysis as well as in working capital management. Working capital is the capital required for day-to-day working of the concerned organization.

5.2 PREPARATION OF FUND FLOW STATEMENT (FFS)

- For the purpose of FFS, there are three approaches regarding definition of fund *viz.*
  1. Fund means total resource.
  2. Fund means Net Working Capital (NWC). NWC means current assets minus current liabilities.
  3. Fund means cash. Cash means cash in hand and cash at bank *i.e.* bank balance.
- Thus there are three approaches for the preparation of FFS *viz.*
  1. Preparation of FFS on the basis of total resource.
  2. Preparation of FFS on the basis of net working capital.
  3. Preparation of FFS on the basis of cash.
- FFS prepared on the basis of cash is popularly known as Cash Flow Statement (CFS).
- For the preparation of fund flow statement, two successive balance sheets are must.

5.2.1 Preparation of Fund Flow Statement (FFS) on the Basis of Total Resources

In this method, the successive balance sheets are compared and changes in each item of balance sheets are noted and classified as a source of fund or application of fund as mentioned below:

Sources: (Sources of fund)

1. Increase in liability side item
2. Decrease in asset side item

Application: (application of fund)

1. Increase in asset side item
2. Decrease in liability side item

Illustration 1:

From the following balance sheets, prepare FFS on total resource basis.

Balance Sheets

(In Rs.)

Liabilities	*As on March 31,2004*	*As on March 31,2005*
Capital	31,250	31,250
Reserve and surplus	50,000	70,000
Debentures	20,000	20,000
Long-term loans	42,500	30,000
Sundry creditors	6,250	25,000
Bank loan	—	25,000
Provision for dividend	—	5,000
Total	**1,50,000**	**2,06,250**

Assets	*As on March 31,2004*		*As on March 31,2005*	
Fixed asset	1,25,000		2,00,000	
Less Depreciation	62,500		68,750	
Net fixed asset		62,500		1,31,250
Stock		37,500		50,000
Debtors		25,000		12,500
Cash		25,000		12,500
Total		**1,50,000**		**2,06,250**

Solution:

Fund Flow Statement

Sources of Fund	*Amount*	*Application of Fund*	*Amount*
Decrease in debtors	12,500	Increase in net fixed asset	68,750
Decrease in cash	12,500	Increase in stock	12,500
Increase in reserve and surplus	20,000	Decrease in long-term loan	12,500
Increase in sundry creditors	18,750		
Increase in bank loan	25,000		
Increase in provision for dividend	5,000		
Total	**93,750**	**Total**	**93,750**

5.2.2 Preparation of Fund Flow Statement (FFS) on the Basis of Net Working Capital (NWC)

The format for the preparation of FFS on the basis of NWC is as follows:

Sources of Fund	*Amount*	*Application of Fund*	*Amount*
1. Fund Provided by Operation (FPO)	–	1. Payment of dividend	–
2. Issue of shares	–	2. Payment of tax	–
3. Issue of debentures/ borrowings	–	3. Redemption of debenture/ Repayment of borrowings	– –
4. Sale of non-current assets	–	4. Purchase of non-current assets	–
5. Non-operational receipts	–	5. Increase in net working capital*	–
6. Decrease in networking capital*	–		
Total	**=**	**Total**	**=**

Note:

1. *In case of change in net working capital, either there will be increase in NWC or there will be decrease in NWC. Decrease in NWC as shown above will act as source of fund whereas increase in NWC will act as application of fund.
2. Non-current assets means fixed assets, intangible assets and investments like fixed deposits etc.
3. It is a practice to deal with dividend and tax separately for the purpose of FFS to make FFS more informative. That is why payment of dividend and payment of tax are shown separately on application of fund side.
4. The mechanism involved in calculation of different items of FFS is given below.

Schedule for change in NWC

- Technically, **provision for dividend/provision for tax** both are current liabilities but for the purpose of calculation of change in NWC, they are excluded from the list of current liability. The reason behind treating them as items of non-current liability is the practice of dealing with them and hence showing them separately in FFS.
- Following methods can be used to calculate change in NWC:

Method I:

$$\boxed{\text{Change in NWC} = (\text{NWC})_{\text{current year}} - (\text{NWC})_{\text{previous year}}}$$

If $(\text{NWC})_{\text{current year}} > (\text{NWC})_{\text{previous year}}$

there will be increase in NWC,

$$\boxed{\text{Increase in NWC} = (\text{NWC})_{\text{current year}} - (\text{NWC})_{\text{previous year}}}$$

If $(\text{NWC})_{\text{current year}} < (\text{NWC})_{\text{previous year}}$

there will be decrease in NWC,

$$\boxed{\text{Decrease in NWC} = (\text{NWC})_{\text{previous year}} - (\text{NWC})_{\text{current year}}}$$

where, Net Working Capital (NWC) = Current Asset (CA) – Current Liability (CL)

Method II:

Particulars	***Increase***	***Decrease***
Increase in current assets components	–	
Decrease in current assets components		–
Increase in current liabilities components		–
Decrease in current liabilities components	–	
Total	**A (say)**	**B (say)**

If A > B,

there will be increase in NWC,

Increase in NWC = A – B

If A < B,

there will be decrease in NWC,

Decrease in NWC = B – A

Thus according to this method, increase in CL components are transferred to decrease column, whereas decrease in CL components are transferred to increase column.

Illustration 2:

From the following balance sheets of ABC Ltd., calculate change in NWC:

(In Rs.)

Particulars	***2002***	***2003***
Assets:		
Goodwill	20,000	10,000
Cash	50,000	1,40,000
Debtors	1,96,000	1,80,000
Closing stock	1,74,000	2,40,000
Short-term investment	30,000	20,000
Land	30,000	54,000
Preliminary expenses	10,000	6,000
Total	**5,10,000**	**6,50,000**
Liabilities:		
Trade creditors	1,00,000	90,000
Bills payable	40,000	70,000
Debentures	–	40,000
Share capital	2,50,000	3,00,000
Profit & Loss A/c	1,20,000	1,50,000
Total	**5,10,000**	**6,50,000**

Solution:

Method I :

Change in NWC = $(NWC)_{\text{current year}} - (NWC)_{\text{previous year}}$

Or Change in NWC = $(NWC)_{2003} - (NWC)_{2002}$

Or Change in NWC = $(CA - CL)_{2003} - (CA - CL)_{2002}$

Or Change in NWC = $(5,80,000 - 1,60,000)_{2003} - (4,50,000 - 1,40,000)_{2002}$

Or Change in NWC = $(4,20,000)_{2003} - (3,10,000)_{2002}$

Since $(NWC)_{2003} > (NWC)_{2002}$

Therefore,

Increase in NWC = 4,20,000 – 3,10,000

Increase in NWC = Rs. 1,10,000

Method II:

Particulars	***Increase***	***Decrease***
Increase in current assets components:		
Cash	90,000	
Closing stock	66,000	
Decrease in current assets components:		
Debtors		16,000
Short-term investment		10,000
Increase in current liabilities components:		
Bills payable		30,000
Decrease in current liabilities components:		
Trade creditors	10,000	
Total	**1,66,000**	**56,000**

Thus,

Increase in NWC = 1,66,000 – 56,000

Increase in NWC = Rs. 1,10,000

Thus both the methods give same change in NWC.

Illustration 3:

From the following balance sheets of XYZ Ltd., calculate change in NWC:

(In Rs.)

Particulars	***2003***	***2004***
Liabilities:		
Equity share capital	4,80,000	7,20,000
Preference share capital (redeemable)	2,40,000	1,20,000
General reserve	48,000	72,000

Contd...

Particulars	***2003***	***2004***
P & L A/c	43,000	64,800
Proposed dividend	67,200	93,600
Sundry creditors	70,000	1,00,000
Bills payable	14,000	27,200
Outstanding salary	19,200	14,400
Provision for taxation	67,200	76,800
Total	**10,48,800**	**12,88,800**

Assets:		
Discount on issue of shares	1,20,000	96,000
Factory	2,40,000	1,20,000
Machinery	2,16,000	4,58,400
Fixed deposit with Syndicate bank	24,000	84,000
Sundry debtors	1,80,000	2,59,200
Stock	2,04,000	1,87,200
Bank	30,600	50,000
Cash	10,200	17,200
Preliminary expenses	24,000	16,800
Total	**10,48,800**	**12,88,800**

Solution:

Schedule for change in NWC:

Particular	***Increase***	***Decrease***
Increase in current assets components:		
Sundry debtors	79,200	
Bank	19,400	
Cash	7,000	
Decrease in current assets components:		
Stock		16,800
Increase in current liabilities components:		
Sundry creditors		30,000
Bills payable		13,200
Decrease in current liabilities components:		
Outstanding salary	4,800	
Total	**1,10,400**	**60,000**

Increase in NWC = 1,10,400 – 60,000

= Rs. 50,400

Illustration 4:

From the following balance sheets of Reshma and Co., calculate change in NWC:

(In Rs.)

Particulars	***2004***		***2005***	
Liabilities:				
Equity share capital	60,000		80,000	
General reserve	34,000		42,000	
P & L A/c	12,000		15,000	
Debentures	40,000		30,000	
Sundry creditors	18,000		21,800	
Bank overdraft	6,000		5,000	
Provision for taxation	18,000		17,000	
Proposed dividend	6,000		7,200	
Total	**1,94,000**		**2,18,000**	
Assets:				
Fixed assets	1,60,000		1,90,000	
Less depreciation	46,000		58,000	
Net fixed asset		1,14,000		1,32,000
Long-term investment		20,000		16,000
Current assets		51,000		63,500
Preliminary expenses		5,000		4,000
Discount on issue of debentures		4,000		2,500
Total		**1,94,000**		**2,18,000**

Solution:

Schedule for change in NWC:

Particulars	***Increase***	***Decrease***
Increase in current assets components:		
Current assets	12,500	
Decrease in current assets components:		-
Increase in current liabilities components:		
Sundry creditors		3,800
Decrease in current liabilities components:		
Bank overdraft	1,000	
Total	**13,500**	**3,800**

Increase in NWC = 13,500 – 3,800

= Rs. 9,700

Calculation of Fund Provided by Operation (FPO)

- Fund provided by operation is major source of fund to FFS.
- The objective of FPO is to calculate fund provided by operation and therefore while calculating FPO those items should be adjusted which do not affect flow of fund like depreciation, expenses written off etc. and non-operational incomes like sale of scrap material, rent received etc.
- The format for calculation of FPO is given below:

Calculation of FPO

Particulars	*Amount*
Net Profit as per P & L A/c or **change in Profit & Loss A/c as per P & L (Appropriation) A/c***	– –
Add:	
Items which do not decrease operating fund:	
• Depreciation charged during the year.	
• Expenses/losses written off like goodwill written off, bad debt written off, preliminary expenses written off, discount on issue written off etc.	
• Loss on sale of non-current assets like fixed assets, long-term investments etc.	
• Transfer to general reserve*	
• Transfer to provision for dividend*	
• Transfer to other provisions like tax*	
Less:	–
Items which do not increase operating fund:	
• Profit on sale of non-current assets like fixed assets, long-term investments etc.	
• Non-operating receipts** like sale of scrap material, dividend receipt, interest receipt etc.	
** Non-operating receipts are shown separately as source of fund in FFS that is why they are excluded from calculation of FPO.	
*Items marked with (*) *i.e.* transfer to general reserve, provision for div. etc. are required to be adjusted for calculation of FPO when **change in Profit & Loss A/c as per P & L (appropriation) A/c** is given. Items marked with (*) need not be adjusted in case **Net Profit as per P & L A/c** is given as these items come after Net Profit (see income statement shown below)	
Fund Provided by Operation (FPO)	–

Remark: **Income Statement for the year ———**

	Particulars		*Amount (Rs.)*	
	Sales	Trading A/c	——	
Less	Cost of Goods Sold (COGS)		——	
	Gross Profit (GP)/(Gross Loss)		——@	
Less	Operating Expenses (OE)		——	
	Operating Profit (OP)		——@	
Add	Non-operating income/Less non-operating losses		——	
	Earning Before Interest and Tax (EBIT)		——@	
Less	Interest		——	P & L A/c
	Earning Before Tax (EBT)		——@	
Less	Tax		——	
	Profit After Tax (PAT)/Net Profit (NP)		——@	
Less	Provision for dividend	P & L (appropr.) A/c	——	
Less	Provision for tax			
Less	Transfer to/provision for general reserve		——	
	Profit & Loss A/c		——@	

Goes to

Balance sheet liability side (under the head reserves and surplus as Profit & Loss A/c or Retained Earnings (RE))

Note:

- @ Stands for balancing figure.
- OE includes general and administrative expenses plus selling and distribution expenses plus depreciation.
- Interest is tax-deductible item means interest is charged before the tax is levied. Whereas dividend is not tax-deductible item means dividend is paid after tax is paid. This is the reason why debt is cheaper source of finance as compared to equity.

Illustration 5:

Calculate FPO from the following details:

P & L A/c

Particulars	*Amount*	*Particulars*	*Amount*
To Salary	30,000	By Gross profit	80,000
To Sundry expenses	10,000	By Profit on sale of machinery	10,000
To Loss on sale of furniture	5,500	By Rent received	5,000
To Discount allowed	1,500		
To Goodwill written off	8,000		

Particulars	Amount	Particulars	Amount
To Pre. expenses written off	2,000		
To Depreciation	13,000		
To Net profit	25,000		
Total	**95,000**	**Total**	**95,000**

Solution:

Calculation of FPO:

(In Rs.)

Particulars		Amount	
Net profit as per P & L A/c		25,000	
Add:			
Items which do not decrease operating fund:			
• Depreciation charged during the year	(non-cash items)		13,000
• Goodwill written off			8,000
• Preliminary expenses written off			2,000
• Loss on sale of furniture			5,500
Less:			
Items which do not increase operating fund:			
• Profit on sale of machinery*		10,000	
• Rent received**		5,000	
* This is non-cash profit and therefore need to be adjusted.			
** This is non-operating receipt and is shown separately in FFS on sources of fund side.			
FPO		**38,500**	

Illustration 6:

Calculate FPO from the following Income Statement:

Income Statement

Particulars	Amount	Particulars	Amount
To Salary	36,000	By Gross income	1,91,000
To Insurance	4,500	By Refund of tax	7,000
To Rent, rates and taxes	10,000	By Dividend received	2,000
To Commission paid	6,000	By Discount received from creditors	7,500
To Dep.			
—— Plant	15,000	By Commission received	15,000
—— Furniture	4,000		
To Provision for doubtful debts	3,000		
To Discount allowed to customer	15,000		

Contd...

Particulars	***Amount***	***Particulars***	***Amount***
To Discount on issue of shares written off	10,000		
To Underwriting commission on shares written off	8,000		
To Provision for taxation	32,000		
To Provision for general reserve	25,000		
To Proposed dividend	20,000		
To Net income	34,000		
Total	**2,22,500**	**Total**	**2,22,500**

Solution:

Calculation of FPO:

(In Rs.)

Particulars		***Amount***
Net income as per income statement		34,000
Add:		
Items which do not decrease operating fund: (non-cash items)		
● Depreciation		
❑ Plant		15,000
❑ Furniture		4,000
● Discount on issue of shares written off		10,000
● Underwriting commission on shares written off		8,000
● Proposed dividend (See note)		20,000
● Provision for tax (See note)		32,000
● Provision for general reserve (See note)		25,000
		1,48,000
Less:		
Items which do not increase operating fund:		
● Refund of tax*	7,000	
● Dividend received*	2,000	
● Discount received from creditors**	7,500	
* These are non-operating receipts and are shown separately in FFS on sources of fund side.		
** This is non-cash profit and therefore required to be adjusted.		
FPO		**1,31,500**

Note: Provision means kept aside. Provisions do not require cash outflow and hence need to be adjusted.

Exercise: Calculate FPO and prepare FFS for illustration 2 given above.

Calculation of FPO:

(In Rs.)

Particulars	***Amount***
Change in P & L A/c	30,000
Add:	
Items which do not decrease operating fund: (non-cash items)	
• Goodwill written off	10,000
• Preliminary expenses written off	4,000
FPO	**44,000**

Fund Flow Statement

Sources of Fund	***Amount***	***Application of Fund***	***Amount***
FPO	44,000	Purchase of land	24,000
Issue of share capital	50,000	Increase in NWC	1,10,000
Issue of debenture	40,000		
Total	**1,34,000**	**Total**	**1,34,000**

Problems on preparation of FFS

There are two categories of problems on FFS *viz.*

Case 1: Preparation of FFS when two successive balance sheets without additional information, are given.

Case 2: Preparation of FFS when two successive balance sheets with additional information, are given.

The combined rules for both the cases alongwith exercises based on rules are given below:

S. No.	***Items***	***Position***	***Rule***
1	Proposed dividend (See note)	Only in balance sheet (B/S)	OB (Previous year's fig.) ------ Shown as application of fund in FFS CB (Current year's fig.) ------ Added to change in P & L A/c* while calculating FPO *(In case Net profit (NP) is given, then do not add CB while calculating FPO)
2	Proposed dividend (See note)	Only in additional information	Same amount is shown as application of fund as well as added to change in P & L A/c while calculating FPO.
3	Proposed dividend is given in both *i.e.* B/S as well as additional information. ***Note:*** Proposed dividend/provision for dividend given in balance sheets under current liabilities should be treated as non-current liability and thus excluded from calculation of change in working capital.		Calculate provision for dividend and amount of div. paid during the year using following equation:[1] OB (Previous year's fig.) + Provision – Amount paid = CB (Current year's fig.) Added to change in P & L A/c while calculating FPO Shown as application of fund in FFS (given in additional information ***Note:*** It is practice to deal proposed dividend/provision for dividend separately for the purpose of FFS *i.e.* why it is excluded from the list of current liability and shown separately on application of fund side in FFS.
Note:	1. In case of provision for tax, same rule as mentioned above for proposed dividend, is applicable for given position. 2. OB (Opening Balance) means previous year's figure and CB (Closing Balance) means current year's figure.		

Contd...

S. No.	***Items***	***Position***	***Rule***
4	Fixed assets without accumulated depreciation	Only in Balance Sheet B/S	Take the difference of both the year's figure: If, CB (Current year's fig.) > OB (Previous year's fig.) ------ Purchase of FA If, CB (Current year's fig.) < OB (Previous year's fig.) ------ Sale of FA. *Note:* ● Purchase value of fixed asset calculated above is shown on application of fund side in FFS. Sale value of fixed asset given in additional information is shown on application of fund side in FFS.
5	Fixed Assets (FA) with accumulated depreciation	Only in Balance sheet (B/S)	Calculate purchase of fixed assets during the year using following equation:[2] OB of FA – Current year's dep.* + Purchase of FA = CB of FA (Written down)** (Written down)** *Current year's depreciation is calculated using following equation: OB of dep. (Previous year's fig.) + Current year's dep. = CB of dep. (Current year's fig.) Added to change in P & L A/c while calculating FPO ** Written down value of FA = Gross value of FA less accumulated depreciation
6	Fixed Assets (FA) without accumulated depreciation is given in Balance Sheet (B/S) and current year's depreciation is given in additional information alongwith part of asset being sold. Calculate BV of part of asset being sold. (BV of part of asset sold = gross value of asset sold less accumulated depreciation on part of asset sold) **If, BV of asset > Sale value of asset -------- Loss on sale** (This amount is added to change in P & L A/c while calculating FPO) **If, BV of asset < Sale value of asset ---- Profit on sale** (This amount is subtracted to change in P & L A/c while calculating FPO)		Calculate purchase of fixed assets during the year using following equation:[3] OB of FA + (Purchase – current year's dep.*) – BV of part of asset sold =CB of FA (Previous year's fig.) (See column to the left) (Current year's fig.) * Current year's depreciation will be given in additional information. Added to change in P & L A/c while calculating FPO ***Note:*** ● Purchase value of fixed asset calculated above is shown on application of fund side in FFS. ● Sale value of fixed asset given in additional information is shown on application of fund side in FFS. ● Abbreviations: BV–Book Value, OB–Opening Balance, CB–Closing Balance, FPO–Fund Provided by Operation, FA–Fixed Asset ● Current year's depreciation and provision for depreciation for current year are synonyms.

Contd...

S. No.	*Items*	*Position*	*Rule*
7	Fixed Assets (FA) with accumulated depreciation is given in Balance Sheet (B/S) and current year's depreciation is given in additional information alongwith part of asset being sold. Calculate BV of part of asset being sold. (BV of part of asset sold = gross value of asset sold less accumulated depreciation on part of asset sold) **If, BV of asset > Sale value of asset ---- Loss on sale** (This amount is added to change in P & L A/c while calculating FPO) **If, BV of asset < Sale value of asset ---- Profit on sale** (This amount is subtracted to change in P & L A/c while calculating FPO)		Calculate purchase of fixed assets during the year using following equation:[4] OB of FA + (Purchase – current year's dep.*) – BV of part of asset sold = CB of FA (Written down)** (see column to the left) (Written down)** * Current year's depreciation is calculated using following equation:[5] OB of dep. (Previous year's fig.) + current year's dep. – accumulated dep. on part of asset sold = CB of dep. (Current year's fig.) Added to change in P & L A/c while calculating FPO Given in additional information ** Written down value of FA = Gross value of FA less accumulated depreciation ***Note:*** ● Purchase value of fixed asset calculated above is shown on application of fund side in FFS. ● Sale value of fixed asset given in additional information is shown on application of fund side in FFS. ● Abbreviations: BV–Book Value, OB–Opening Balance, CB–Closing Balance, FPO–Fund Provided by Operation, FA–Fixed Asset

Remark:

1. The corresponding ledger form of this equation will be as follows:

Proposed Dividend/Provision for tax

Decrease ***Increase***

Particulars	*Dr. Amount*	*Particulars*	*Cr. Amount*
To Cash (Amount paid) To Closing Balance (CB)	–	By Opening Balance (OB) (Previous year's figure)	–
(Current year's figure)	–	By P & L A/c (being provision made for current year) – balancing fig.	@
Total	=	**Total**	=

2. The corresponding ledger form of this equation will be as follows:

Fixed Asset A/c (FA A/c)

Increase ***Decrease***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
To Opening Balance (OB)– written down (Previous year's figure)	–	By Provision for current year's depreciation* – consider balancing fig. of ledger given below	–
To Purchase (balancing fig.)	@	By Closing Balance (CB) – written down (current year's figure)	–
Total	**=**	**Total**	**=**

***Provision for depreciation**

Decrease ***Increase***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
		By Opening Balance (OB) (Previous year's figure)	
To Closing Balance (CB) (Current year's figure)	–	By P & L A/c (being provision for current year's depreciation) – balancing fig.	–@
Total	**=**	**Total**	**=**

3. The corresponding ledger form of this equation will be as follows:

Fixed Asset A/c (FA A/c)

Increase ***Decrease***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
To Opening Balance (OB) (Previous year's figure)	–	By Provision for current year's dep. – being given in additional information	–
To Purchase (balancing fig.)	@	By Book Value (BV) of part of asset sold	–
		By Closing Balance (CB) (Current year's figure)	–
Total	**=**	**Total**	**=**

4. The corresponding ledger form of this equation will be as follows:

Fixed Asset A/c (FA A/c)

Increase ***Decrease***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
To Opening Balance (OB)– written down (Previous year's figure)	–	By Provision for current year's dep.[5]	–
To Purchase (balancing fig.)	@	By Book Value (BV) of part of asset sold	–
		By Closing Balance (CB)– written down (Current year's figure)	–
Total	**=**	**Total**	**=**

'Or'

Fixed Asset A/c (FA A/c)

Increase ***Decrease***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
To Opening Balance (OB)– written down (Previous year's figure)	–	By Provision for current year's dep.[5]	–
		By Sale of Asset	–
		By Loss on sale of asset (in case BV > Sale value)	–
To Purchase (balancing fig.)	@	By Closing Balance (CB) – written down (Current year's figure)	–
Total	**=**	**Total**	**=**

'Or'

Fixed Asset A/c (FA A/c)

Increase ***Decrease***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
To Opening Balance (OB)–written down (Previous year's figure)	–	By Provision for current year's dep.[5]	–
To Profit on sale of asset (in case sale value > BV)	–	By Sale of asset	–
To Purchase (balancing fig.)	@	By Closing Balance (CB)–written down (Current year's figure)	–
Total	**=**	**Total**	**=**

5. The corresponding ledger form of this equation will be as follows:

Provision for Dep./Accumulated depreciation

Increase ***Decrease***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
To Dep. on part of asset sold (Being given in additional information)	–	By Opening Balance (OB) (Previous year's figure)	–
To Closing Balance (CB) (Current year's figure)	–	By P & L A/c (being provision for current year's depreciation)–balancing fig.	@
Total	**=**	**Total**	**=**

Remark:

The general rule for placing Opening Balance (OB) and Closing Balance (CB) in ledger account is as follows:

(a) For Assets/Expenses:

Following is the format for ledger:

Assets/Expenses

Increase ***Decrease***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
To Opening Balance (OB) (Previous year's figure)	–	By Closing Balance (CB) (Current year's figure)	–
Total	**=**	**Total**	**=**

(b) For Liabilities/Income:

Following is the format for ledger:

Liabilities/Incomes

Increase ***Decrease***

Particulars	***Dr. Amount***	***Particulars***	***Cr. Amount***
To Closing Balance (CB) (Current year's figure)	–	By Opening Balance (OB) (Previous year's figure)	–
Total	**=**	**Total**	**=**

Exercise Based on Rule No. 1 and Rule No. 4:

Calculate FPO and prepare FFS for Illustration 3:

Illustration 3:

From the following Balance sheets of XYZ Ltd., prepare FFS:

(In Rs.)

Particulars	***2003***	***2004***
Liabilities:		
Equity share capital	4,80,000	7,20,000
Preference share capital (redeemable)	2,40,000	1,20,000
General reserve	48,000	72,000
P & L A/c	43,000	64,800
Proposed dividend	67,200	93,600
Sundry creditors	70,000	1,00,000
Bills payable	14,000	27,200
Outstanding salary	19,200	14,400
Provision for taxation	67,200	76,800
Total	**10,48,800**	**12,88,800**
Assets:		
Discount on issue of shares	1,20,000	96,000
Factory	2,40,000	1,20,000
Machinery	2,16,000	4,58,400
Fixed deposit with Syndicate bank	24,000	84,000
Sundry debtors	1,80,000	2,59,200
Stock	2,04,000	1,87,200
Bank	30,600	50,000
Cash	10,200	17,200
Preliminary expenses	24,000	16,800
Total	**10,48,800**	**12,88,800**

Solution:

Schedule for change in NWC:

Particulars	*Increase*	*Decrease*
Increase in current assets components:		
Sundry debtors	79,200	
Bank	19,400	
Cash	7,000	
Decrease in current assets components:		
Stock		16,800
Increase in current liabilities components:		
Sundry creditors		30,000
Bills payable		13,200
Decrease in current liabilities components:		
Outstanding salary	4,800	
Total	**1,10,400**	**60,000**

Increase in NWC = 1,10,400 – 60,000
= Rs. 50,400

Calculation of FPO:

(In Rs.)

Particulars	*Amount*
Change in P & L A/c	21,600
Add:	
Items which do not decrease operating fund:	
• Proposed dividend (Rule no.1)	93,600
• Provision for tax (Rule no.1)	76,800
• Preliminary expenses written off	7,200
• Transfer to general reserve	24,000
• Discount on issue of shares written off	24,000
FPO	**2,47,200**

Fund Flow statement (In Rs.)

Sources of Fund	***Amount***	***Application of Fund***	***Amount***
FPO	2,47,000	Payment of dividend	67,200
Issue of share capital	2,40,000	Payment of tax	67,200
Sale of factory (Rule no.4)	1,20,000	Redemption of preference capital	1,20,000
		Purchase of machinery (Rule no.4)	2,42,400
		Investment in fixed deposits	60,000
		Increase in NWC	50,400
Total	**6,07,200**	**Total**	**6,07,200**

Exercise Based on Rule No. 1 and Rule No. 5

Calculate FPO and Prepare FFS for Illustration 4:

Illustration 4:

From the following balance sheets of Reshma and Co., calculate change in NWC:

(In Rs.)

Particulars	***2004***		***2005***	
Liabilities:				
Equity share capital	60,000		80,000	
General reserve	34,000		42,000	
P & L A/c	12,000		15,000	
Debentures	40,000		30,000	
Sundry creditors	18,000		21,800	
Bank overdraft	6,000		5,000	
Provision for taxation	18,000		17,000	
Proposed dividend	6,000		7,200	
Total	**1,94,000**		**2,18,000**	
Assets:				
Fixed assets	1,60,000		1,90,000	
Less Depreciation	46,000		58,000	
Net fixed asset		1,14,000		1,32,000
Long-term investment		20,000		16,000
Current assets		51,000		63,500
Preliminary expenses		5,000		4,000
Discount on issue of debentures		4,000		2,500
Total		**1,94,000**		**2,18,000**

Solution:

Schedule for change in NWC:

Particulars	***Increase***	***Decrease***
Increase in current assets components:		
Current assets	12,500	
Decrease in current assets components:		–
Increase in current liabilities components:		
Sundry creditors		3,800
Decrease in current liabilities components:		
Bank overdraft	1000	
Total	**13,500**	**3,800**

Increase in NWC = 13,500 – 3,800
= Rs. 9,700

Calculation of FPO:

(In Rs.)

Particulars	***Amount***
Change in P & L A/c	3,000
Add:	
Items which do not decrease operating fund:	
• Transfer to general reserve	8,000
• Proposed dividend	7,200
• Provision for tax	17,000
• Preliminary expenses written off	1,000
• Discount on issue of shares written off	1,500
• Current year's depreciation*	12,000
FPO	**49,700**

* Current year's depreciation is calculated using following equation:

OB of dep. (Previous year's fig.) + current year's dep. = CB of dep. (Current year's fig.)

Added to change in P & L A/c while calculating FPO

46,000 + current year's depreciation = 58,000

Thus, current year's depreciation = 12,000

Fund Flow statement

Sources of Fund	*Amount (Rs.)*	*Application of Fund*	*Amount (Rs.)*
FPO	49,700	Payment of Dividend	6,000
Issue of share capital	20,000	Payment of tax	18,000
Disposal of long-term investment	4,000	Redemption of debentures	10,000
		Purchase of fixed asset (FA)*	30,000
		Increase in NWC	9,700
Total	**73,700**	**Total**	**73,700**

* Purchase of fixed assets (FA) during the year is calculated using following equation:

OB of FA – Current year's dep.* + Purchase of FA = CB of FA

(Written down)** (Written down)**

** Written down value of FA = Gross value of FA less accumulated depreciation

1,14,000 – 12,000 + purchase of FA = 1,32,000

Thus, Purchase of FA = 30,000

Exercise Based on Rule No. 1, Rule No. 2 and Rule No. 4

Illustration 7:

Following are the balance sheets of 'X' Company Ltd., as on 31, March.

(In Rs.)

Particulars	*2004*	*2005*
Liabilities:		
Equity share capital	10,00,000	11,00,000
General reserve	2,00,000	2,00,000
P & L A/c	1,10,000	1,90,000
Debentures	5,00,000	3,00,000
Trade creditors	50,000	40,000
Bills payable	20,000	30,000
Income tax provision	40,000	1,10,000
Provision for doubtful debts	30,000	24,000
Total	**19,50,000**	**19,94,000**
Assets:		
Goodwill	50,000	40,000
L and B	4,20,000	6,60,000
P and M	6,00,000	8,00,000
Closing stock	2,50,000	2,10,000
Debtors	3,00,000	2,40,000
Cash	3,00,000	24,000
Preliminary expenses	30,000	20,000
Total	**19,50,000**	**19,94,000**

Dividend paid during the year ended 31^{st} March 2005 was Rs. 80,000.

Prepare Fund Flow Statement (FFS).

Solution:

Schedule for change in NWC:

Change in NWC = $(NWC)_{current\ year} - (NWC)_{previous\ year}$

Or Change in NWC = $(NWC)_{2005} - (NWC)_{2004}$

Or Change in NWC = $(CA - CL)_{2005} - (CA - CL)_{2004}$

Or Change in NWC = $(4,74,000 - 94,000)_{2005} - (8,50,000 - 1,00,000)_{2004}$

Or Change in NWC = $(3,80,000)_{2005} - (7,50,000)_{2004}$

Since $(NWC)_{2005} < (NWC)_{2004}$

Therefore,

Decrease in NWC = 7,50,000 – 3,80,000

Decrease in NWC = 3,70,000

Calculation of FPO:

(In Rs.)

Particulars	***Amount***	
Change in P & L A/c	80,000	
Add:		
Items which do not decrease operating fund:		
• Goodwill written off		10,000
• Preliminary expenses written off		10,000
• Provision for dividend (Rule No. 2)		80,000
• Provision for tax (Rule No. 1)		1,10,000
FPO	**2,90,000**	

Fund Flow Statement (In Rs.)

Sources of Fund	***Amount Rs.***	***Application of Fund***	***Amount***
FPO	2,90,000	Payment of Dividend (Rule No. 2)	80,000
Issue of share capital	1,00,000	Payment of tax (Rule No. 1)	40,000
Decrease in NWC	3,70,000	Redemption of debentures	2,00,000
		Purchase of L and B (Rule No. 4)	2,40,000
		Purchase of P and M (Rule No. 4)	2,00,000
Total	**7,60,000**	**Total**	**7,60,000**

Exercise Based on Rule No. 2, Rule No. 3 and Rule No. 6

Illustration 8:

Following are the balance sheets of 'X' Company Ltd. as on 31, March.

(In Rs.)

Particulars	*2004*	*2005*
Liabilities:		
Equity share capital	10,00,000	11,00,000
General reserve	2,00,000	2,00,000
P & L A/c	1,10,000	1,90,000
Debentures	5,00,000	3,00,000
Trade creditors	50,000	40,000
Bills payable	20,000	30,000
Income tax provision	40,000	1,10,000
Provision for doubtful debts	30,000	24,000
Total	**19,50,000**	**19,94,000**
Assets:		
Goodwill	50,000	40,000
L and B	4,20,000	6,60,000
P and M	6,00,000	8,00,000
Closing stock	2,50,000	2,10,000
Debtors	3,00,000	2,40,000
Cash	3,00,000	24,000
Preliminary expenses	30,000	20,000
Total	**19,50,000**	**19,94,000**

Additional information:

1. Dividend paid during the year ended 31st March 2005 was Rs. 80,000.
2. Income tax actually paid during the year ended 31st March 2005 was Rs. 60,000.
3. During the year 2005 a part of machinery costing Rs. 7,500 (accumulated depreciation thereon being Rs. 2,500) was sold for Rs. 3000.
4. Depreciation for the year 2005 was provided as follows:
   - P and M : Rs. 50,000
   - L and B : Rs. 30,000

Solutions:

Schedule for change in NWC:

Change in NWC = $(NWC)_{\text{current year}}$ – $(NWC)_{\text{previous year}}$

Or Change in NWC = $(NWC)_{2005}$ – $(NWC)_{2004}$

Or Change in NWC = $(CA - CL)_{2005}$ – $(CA - CL)_{2004}$

Or Change in NWC = $(4{,}74{,}000 - 94{,}000)_{2005}$ – $(8{,}50{,}000 - 1{,}00{,}000)_{2004}$

Or Change in NWC = $(3,80,000)_{2005}$ – $(7,50,000)_{2004}$

Since $(NWC)_{2005}$ < $(NWC)_{2004}$

Therefore,

Decrease in NWC = 7,50,000 – 3,80,000

Decrease in NWC = 3,70,000

Calculation of FPO:

(In Rs.)

Particulars	***Amount***
Change in P & L A/c	80,000
Add:	
Items which do not decrease Operating fund:	
● Goodwill written off	10,000
● Preliminary expenses written off	10,000
● Provision for dividend (Rule No. 2)	80,000
● Provision for tax (Rule No. 3)[1]	1,30,000
● Current year's depreciation (Rule No. 6)	
❑ P and M	50,000
❑ L and B	30,000
● Loss on sale of machinery (Rule No. 6)[2]	2000
FPO	**3,92,000**

1. Provision for tax and amount of tax paid during the year is calculated using following equation:
   OB (Previous year's fig.) + Provision – Amount paid = CB (Current year's fig.)

Added to change in P & L A/c while calculating FPO	Shown as application of fund in FFS (given in additional information)

   40,000 + Provision for tax – 60,000 = 1,10,000

   Provision for tax = 1,30,000

2. Profit/Loss on sale of machinery is calculated as follows (Rule No. 6):

   Book value of part of asset being sold = gross value less accumulated depreciation

   = 7,500 – 2,500

   = 5,000

   Market value of part of asset being sold = 3,000

   Loss on sale of machinery = 5,000 – 3,000 = Rs. 2000

Fund Flow Statement

Sources of Fund	*Amount (Rs.)*	*Application of Fund*	*Amount (Rs.)*
FPO	3,92,000	Payment of dividend (Rule No. 2)	80,000
Issue of share capital	1,00,000		
Sale of machinery	3,000	Payment of tax (Rule No. 3)	60,000
Decrease in NWC	3,70,000	Redemption of debentures	2,00,000
		Purchase of L and B (Rule No. 6)*	2,70,000
		Purchase of P and M (Rule No. 6)**	2,55,000
Total	**7,60,000**	**Total**	**7,60,000**

* Calculation of Purchase of L and B (Rule No. 6)

Calculate purchase of L and B during the year using following equation:

OB of L and B + (Purchase of L and B – current year's dep.*) – BV of part of asset sold = CB of L and B
(Previous year's fig.) (Current year's fig.)

* Current year's depreciation will be given in additional information.

Added to change in P & L A/c while calculating FPO

Given,

4,20,000 + (Purchase of L and B – 30,000) – 0 = 6,60,000

Thus,

Purchase of L and B = 2,70,000

** Calculation of Purchase of P and M (Rule No. 6)

Calculate purchase of P and M during the year using following equation:

OB of P and M + (Purchase of P and M – current year's dep.*) – BV of part of asset (P and M) sold = CB of P and M
(Previous year's fig.) (Current year's fig.)

* Current year's depreciation will be given in additional information.

Added to change in P & L A/c while calculating FPO

Given,

6,00,000 + (Purchase of P and M – 50,000) – 5000 = 8,00,000

Thus,

Purchase of P and M = 2,55,000

Exercise Based on Rule No. 2, Rule No. 4, Rule No. 5 and Rule No. 7

Illustration 9:

Following are the balance sheets of YP and Co. as on 31, March.

(In Rs.)

Particulars	***2004 (Previous Year)***		***2005 (Current Year)***	
Liabilities:				
Equity share capital	10,00,000		10,00,000	
P & L A/c	60,000		80,000	
Bank overdraft	1,60,000		6,00,000	
Sundry creditors	20,00,000		6,00,000	
Total	**14,20,000**		**22,80,000**	
Assets:				
L and B		3,00,000		5,00,000
P and M	5,00,000		6,00,000	
Less depreciation	1,20,000		1,80,000	
Net P and M		3,80,000		4,20,000
Vehicle	1,16,000		1,24,000	
Less depreciation	56,000		84,000	
Net Vehicle		60,000		40,000
Stock		2,20,000		7,20,000
Debtors		4,60,000		6,00,000
Total		**14,20,000**		**22,80,000**

Additional information

1. During the year a dividend of 10% was distributed to the shareholders.
2. On 1st Jan of the current year, a motor car (vehicle), which originally cost Rs. 20,000, showing a book value of Rs. 10,000, was sold for Rs.16,000.

You are required to prepare FFS.

Solution:

Schedule for change in NWC:

Particulars	*Increase*	*Decrease*
Increase in current assets components:		
• Debtors	1,40,000	
• Stock	5,00,000	
Decrease in current assets components:		–
Increase in current liabilities components:		
• Bank overdraft		4,40,000
• Sundry creditors		4,00,000
Decrease in current liabilities components:		
Total	**6,40,000**	**8,40,000**

Decrease in NWC = 8,40,000 – 6,40,000
= Rs. 2,00,000

L and B: (Rule No. 4):

Take the difference of both the year's figure:

If, CB (Current year's fig.) > OB (Previous year's fig.) —— Purchase of FA

Given,

CB (Current year's fig.) = 5,00,000

OB (Previous year's fig.) = 3,00,000

Thus,

Purchase of FA (L and B) = 5,00,000 – 3,00,000 = Rs. 2,00,000

P and M (Rule No. 5):

Current year's depreciation is calculated using following equation:

OB of dep. (Previous year's fig.) + current year's dep. = CB of dep. (Current year's fig.)

Added to change in P & L A/c while calculating FPO

1,20,000 + current year's depreciation = 1,80,000

Thus,

Current year's depreciation = 60,000

Purchase of fixed assets (P and M) during the year is calculated using following equation:

OB of P and M (Written down)** – Current year's dep. + Purchase of P and M = CB of P and M (Written down)**

** Written down value of P and M = Gross value of P and M less accumulated depreciation

3,80,000 – 60,000 + purchase of P and M = 4,20,000

Thus,

Purchase of P and M = 1,00,000

Vehicle (Motor car) (Rule No. 7):

Current year's depreciation is calculated using following equation:

OB of dep. + Current year's dep.– accumulated dep. on part of asset sold = CB of dep.

(Previous year's fig.) (Current year's fig.)

Added to change in P & L A/c while calculating FPO

Given in additional information

56,000 + Current year's depreciation – 10,000* = 84,000

Current year's depreciation = 38,000

(* Given gross value = 20,000 and book value = 10,000, therefore depreciation on part of vehicle sold = Rs. 10,000)

Calculate purchase of Vehicle during the year using following equation:

OB of Vehicle + (Purchase of Vehicle – current year's dep.) – BV of part of Vehicle sold = CB of Vehicle

(Written down)** (Written down)**

60,000+ (Purchase of Vehicle – 38,000) – 10,000 = 40,000

Thus,

Purchase of Vehicle = 28,000

Profit/Loss on sale of Vehicle

BV of part of vehicle sold = Rs. 10,000

Sale value of part of vehicle sold = Rs. 16,000

Profit on sale of part of vehicle sold = 16,000 – 10,000 = Rs. 6,000

Calculation of FPO

(In Rs.)

Particulars	***Amount***
Change in P & L A/c	20,000
Add:	
Items which do not decrease Operating fund:	
• Current year's depreciation on P and M	60,000
• Current year's depreciation on Vehicle	38,000
• Provision for dividend (Rule No. 2) – at 10%	1,00,000
Less:	
Items which do not increase Operating fund:	
• Profit on sale of Vehicle	6,000
FPO	**2,12,000**

Fund Flow Statement

Sources of fund	*Amount (Rs.)*	*Application of fund*	*Amount (Rs.)*
FPO	2,12,000	Payment of dividend (Rule No. 2)	1,00,000
Issue of share capital	–		
Sale of vehicle	16,000	Purchase of L and B (Rule No. 4)	2,00,000
Decrease in NWC	2,00,000		
		Purchase of P and M (Rule No. 5)	1,00,000
		Purchase of vehicle (Rule No. 7)	28,000
Total	**4,28,000**	**Total**	**4,28,000**

5.2.3 Preparation of Fund Flow Statement (FFS) on the Basis of Cash and Bank Balance or {Cash Flow Statement (CFS)}

The format for the preparation of CFS is as follows:

Sources of cash	*Amount*	*Application of fund*	*Amount*
7. Cash Provided by Operation (CPO)	–	6. Payment of dividend	–
		7. Payment of tax	–
8. Issue of shares	–	8. Redemption of debenture/ repayment of borrowings	–
9. Issue of debentures/borrowings	–		
10. Sale of non-current assets	–	9. Purchase of non-current assets	–
11. Non-operational receipts	–		
12. Decrease in cash and bank balance*	–	10. Increase in cash and bank balance*	–
Total	**=**	**Total**	**=**

*** Only one will occur.**

Note:

- The mechanism involved in preparation of items of Cash Flow Statement except CPO is exactly same as that of Fund Flow Statement.
- In Cash Flow Statement as compared with Fund Flow Statement, FPO is being replaced by CPO whereas increase/decrease in NWC is replaced by increase/decrease in cash and bank balance.
- The format for preparation of Cash Provided by Operation (CPO) is as follows —

Calculation of CPO

CPO is FPO adjusted with Current Asset (CA) components except cash and bank balance and Current Liability (CL) components as per schedule given below:

(In Rs.)

Particulars	***Amount***	
FPO (As per FFS)	–	
***Add:**		
• Decrease in Current Asset (CA) components		–
• Increase in Current Liabilities (CL) components		–
****Less:**		
• Increase in Current Asset (CA) components		(–)
• Decrease in Current Liabilities (CL) components		(–)
CPO	**–**	

Note:

*In FFS decrease in NWC acts as source of fund. Decrease in NWC means either decrease in CA components and/or increase in CL components. That is why these items are added to FPO while calculating CPO.

**Similarly in FFS increase in NWC acts as application of fund. Increase in NWC means either increase in CA components and/or decrease in CL components. That is why these items are subtracted to FPO while calculating CPO.

Illustration: (Illustration 3 of FFS)
From the following balance sheets of XYZ Ltd., prepare CFS:

(In Rs.)

Particulars	***2003***	***2004***
Liabilities:		
Equity share capital	4,80,000	7,20,000
Preference share capital (redeemable)	2,40,000	1,20,000
General reserve	48,000	72,000
P & L A/c	43,000	64,800
Proposed dividend	67,200	93,600
Sundry creditors	70,000	1,00,000
Bills payable	14,000	27,200
Outstanding salary	19,200	14,400
Provision for taxation	67,200	76,800
Total	**10,48,800**	**12,88,800**
Assets:		
Discount on issue of shares	1,20,000	96,000
Factory	2,40,000	1,20,000
Machinery	2,16,000	4,58,400

Contd...

(In Rs.)

Particulars	***2003***	***2004***
Fixed deposit with Syndicate bank	24,000	84,000
Sundry debtors	1,80,000	2,59,200
Stock	2,04,000	1,87,200
Bank	30,600	50,000
Cash	10,200	17,200
Preliminary expenses	24,000	16,800
Total	**10,48,800**	**12,88,800**

Solution:

Calculation of CPO:

(In Rs.)

Particulars	***Amount***	
Change in P & L A/c	21,600	
Add:		
Items which do not decrease operating fund:		
• Proposed dividend (Rule no.1)		93,600
• Provision for tax (Rule no.1)		76,800
• Preliminary expenses written off		7,200
• Transfer to general reserve		24,000
• Discount on issue of shares written off		24,000
FPO	**2,47,200**	
Add:		
Decrease in current assets components except cash and bank balance:		
• Stock	16,800	
Increase in current liabilities components:		
• Sundry creditors	30,000	
• Bills payable	13,200	
Less:		
Increase in current assets components except cash and bank balance:		
• Sundry debtors	(79,200)	
Decrease in current liabilities components:		
• Outstanding salary	(4,800)	
CPO	**2,23,200**	

Cash Flow Statement (CFS)

Sources of cash	***Amount (Rs.)***	***Application of cash***	***Amount (Rs.)***
CPO	2,23,200	Payment of dividend	67,200
Issue of share capital	2,40,000	Payment of tax	67,200
Sale of factory (Rule no.4)	1,20,000	Redemption of preference capital	1,20,000
		Purchase of machinery (Rule no.4)	2,42,400
		Investment in fixed deposits	60,000
		Increase in cash and bank balance	26,400
Total	**5,83,200**	**Total**	**5,83,200**

5.3 DIFFERENCE BETWEEN FUND FLOW STATEMENT (FFS) AND CASH FLOW STATEMENT (CFS)

Point of difference	***Fund Flow Statement (FFS)***	***Cash Flow Statement (CFS)***
Interpretation	FFS depicts fund position measured in terms of Net Working Capital (NWC) *i.e.* fund inflow and fund outflow between two successive balance sheets.	CFS depicts cash* position measured in terms of cash *i.e.* cash inflow and cash outflow between two successive balance sheets.
Schedule for change in working capital	Required	Not required
Basis of analysis	It discloses cause of changes in working capital during financial year.	It discloses cause of changes in cash balance during financial year.
Accounting principle	FFS is prepared on 'accrual basis' of accounting e.g. sales whether cash or credit generate funds from operation.	CFS is prepared on 'cash basis' of accounting e.g. only cash sales generate fund in terms of cash from operation.
Major source of fund	Fund provided by operation (FPO) is a major source of fund.	Cash provided by operation (CPO) is a major source of fund.

*** Cash means cash in hand and cash at bank *i.e.* cash and bank balance.**

5.4 DIFFERENCE BETWEEN FUND FLOW STATEMENT (FFS) AND INCOME STATEMENT

Point of difference	***Fund Flow Statement (FFS)***	***Income Statement (P & L A/c)***
Interpretation	FFS depicts fund position measured in terms of Networking Capital (NWC) *i.e.* fund inflow and fund outflow between two successive balance sheets.	Income Statement depicts summary of all expenses and incomes during financial year.
Requirements	All items whether capital or revenue are considered in preparing this statement.	Only revenue items are considered in preparing this statement.
Basis of analysis	It discloses cause of changes in working capital during financial year.	It discloses the result of business operation *i.e.* net profit/net loss.
Statutory information	Preparation of FFS is optional and if it is prepared, it can be done so in any manner.	Preparation of income statement is compulsory and is prepared according to law.
Inter-relationship	FFS is dependent on income statement as Fund Provided by Operation (FPO) is calculated from income statement.	FFS does not help in preparation of income statement.

5.5 DIFFERENCE BETWEEN FUND FLOW STATEMENT (FFS) AND BALANCE SHEET (B/S)

Point of difference	***Fund Flow Statement (FFS)***	***Balance Sheet (B/S)***
Interpretation	FFS shows changes in financial position *i.e.* changes in assets and liabilities between two successive balance sheets.	Balance Sheet (B/S) shows financial position *i.e.* picture of assets and liabilities at a given point of time usually as on 31^{st} March.
Nature	FFS is dynamic in nature as it shows changes in assets and liabilities.	Balance Sheet (B/S) is static in nature at it shows position of assets and liabilities at a particular point of time.
Requirements	All items whether capital or revenue are considered in preparing this statement.	Only items, which are of long-term nature, are considered in preparing this statement.
Statutory information	Preparation of FFS is optional and if it is prepared, it can be done so in any manner.	Preparation of Balance Sheet is compulsory and is prepared according to law.
Inter-relationship	To prepare FFS, two successive balance sheets are required.	To prepare balance sheet, FFS is not required.

Exercises

Q. 1. What is fund flow statement? Discuss the significance of fund flow statement as a tool of financial analysis.

Q. 2. Discuss the methodology of preparing fund flow statement.

Q. 3. What are the major sources and uses of networking capital?

Q. 4. What do you understand by working capital concept of term fund? How is fund flow prepared under this concept?

Q. 5. The balance sheets of ABC Ltd., as on December 31, 2001 and December 31, 2002 are as under:

	Dec.31, 2001 (Rs.)	***Dec. 31,2002 (Rs.)***
Assets		
Cash	10,000	12,000
Sundry Debtors	28,000	28,000
Stock	44,000	16,000
Prepaid Insurance	400	500
Prepaid Rent	300	200
Prepaid Property Tax	600	800
Land and Buildings	8,000	16,000
Machinery and Truck	60,000	96,000
TOTAL ASSETS	**1,51,300**	**1,69,500**
Liabilities and Capital		
Sundry Creditors	40,000	36,000
Accrued Expenses	4,000	8,000
Income Tax Payable	2,000	2,200
Share Capital	60,000	74,000
General Reserve	25,300	27,300
Depreciation Fund	20,000	22,000
TOTAL LIABILITIES	**1,51,300**	**1,69,500**

Sales for the Year 2002 were Rs. 4,20,000. Net income after taxes was Rs. 14,000. In arriving at the net profit, items deducted from sales included among others: cost of good sold Rs. 3,30,000; depreciation of Rs. 10,000, wages and salaries Rs. 40,000 and a gain of Rs. 2,000 on the sale of a truck. The truck had cost Rs. 12,000, depreciation of Rs. 8,000 had been accumulated for it and it was old for Rs. 6,000. This was the only asset written off during the year. The company declared and paid Rs. 12,000 in dividends during the year.

Prepare a schedule of changes in working capital and a statement showing the source and application of funds for the year 2002.