



23BAT605-FINANCIAL STATEMENT ANALYSIS

Fund Flow Statement

The Fund Flow Statement, also known as the Statement of Changes in Financial Position or Funds Statement, is a financial statement that provides a summary of a company's financial activities over a specified period. It focuses on changes in a company's financial position and highlights the sources and uses of funds. Fund Flow Statements are particularly useful for analyzing the movement of funds between different activities and understanding how a company manages its financial resources.

1. Purpose and Significance:

- **Analysis of Financial Changes:**
 - The primary purpose is to analyze changes in a company's financial position between two balance sheet dates.
- **Sources and Uses of Funds:**
 - Highlights the sources from which funds are generated and the uses to which funds are applied.
- **Financial Decision-Making:**
 - Assists management in making informed financial decisions by providing insights into the company's capital structure and liquidity.

2. Sections of the Fund Flow Statement:

- **Sources of Funds:**
 - Indicates the inflow of funds into the company.
 - Includes items such as net income, issuance of stock, long-term borrowings, etc.
- **Applications of Funds:**
 - Represents the outflow of funds from the company.
 - Includes items like capital expenditures, repayment of debt, payment of dividends, etc.

3. Components of the Fund Flow Statement:

- **Operating Activities:**
 - Involves cash transactions related to the company's day-to-day operations.
 - Includes changes in working capital, such as accounts receivable, inventory, and accounts payable.

- **Investing Activities:**
 - Encompasses cash transactions related to long-term investments in assets.
 - Includes capital expenditures, acquisitions, and sales of long-term assets.
- **Financing Activities:**
 - Involves cash transactions related to the company's capital structure.
 - Includes issuances and repurchases of stock, long-term borrowings, and dividend payments.

4. Preparation and Presentation:

- **Statement of Changes:**
 - Prepared as a statement of changes in financial position, showing the beginning and ending balances of various accounts.
- **Adjustments:**
 - Adjustments are made to the income statement and balance sheet to arrive at the funds flow.

5. Importance of Fund Flow Statement:

- **Cash vs. Non-Cash Transactions:**
 - Distinguishes between cash and non-cash transactions, providing a more comprehensive view of financial activities.
- **Capital Budgeting:**
 - Assists in evaluating the impact of capital budgeting decisions on a company's financial position.
- **Financial Planning:**
 - Useful for financial planning by identifying trends in the movement of funds and assisting in forecasting future cash flows.

6. Limitations:

- **Historical Perspective:**
 - Reflects historical data and may not capture current market conditions or emerging trends.
- **Sensitivity to Accounting Policies:**
 - The Fund Flow Statement may be sensitive to changes in accounting policies.

- **Subject to Manipulation:**

- Like any financial statement, the Fund Flow Statement can be manipulated through creative accounting practices.

7. Relationship with Cash Flow Statement:

- **Complementary Statements:**

- While the Cash Flow Statement focuses on cash transactions, the Fund Flow Statement includes both cash and non-cash transactions.

- **Integration:**

- Both statements are used together to gain a comprehensive understanding of a company's financial activities.

Conclusion:

The Fund Flow Statement is a valuable tool for financial analysis, providing insights into the sources and uses of funds over a specific period. While it has some limitations, its historical perspective and focus on changes in financial position make it a valuable complement to other financial statements, such as the Cash Flow Statement and Balance Sheet. It aids in financial decision-making, planning, and evaluating the overall financial health of a company.