



SNS COLLEGE OF TECHNOLOGY

An Autonomous Institution

Coimbatore-35



Accredited by NBA – AICTE and Accredited by NAAC – UGC with ‘A+’ Grade
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai

Department of Automobile Engineering

III YEAR/ VI SEMESTER

19MEE301 / Engineering Economics and cost Analysis

UNIT-4

Funds Flow Statement

Funds Flow Statement is a statement prepared to analyse the reasons for changes in the Financial Position of a Company between 2 Balance Sheets. It shows the inflow and outflow of funds i.e. Sources and Applications of funds for a particular period. In other words, a Funds Flow Statement is prepared to explain the changes in the Working Capital Position of a Company. There are 2 types of Inflows of Funds:-

Long Term Funds raised by Issue of Shares, Debentures or Sale of Fixed Assets

2. Funds generated from Operations

If the Long Term Fund requirements of a company are met just out of the Long Term Sources of Funds, then the whole fund generated from operations will be represented by increase in Working

Capital. However, if the Funds generated from Operations are not sufficient to bridge a gap of Long Term Fund Requirements, then there will be a decline in Working Capital.

Difference between Funds Flow Statement & Cash Flow Statement

Both Funds flow statement and Cash Flow Statement are used in analysis of part transactions of a business firm. However, there are some differences between the two as given below:-

Funds Flow Statement is based on the Accrual System of Accounting. However, in case of Cash Flow Statement only the transactions effecting Cash or Cash equivalents are taken into consideration

Funds Flow Statement analyses the Sources and Application of Funds of Long Term nature and the Net Increase or Decrease in Long Term Funds will be reflected on the Working Capital of the firm. The Cash Flow Statement only considers the Increase or Decrease in Current Assets or Current Liabilities in calculating the Cash Flow of Funds from Operations

2. Funds Flow Statement is more useful for Long Term Financial Planning. Cash Flow Analysis is more useful for identifying and correcting the liquidity problems of the firm.

Steps for Preparing Funds Flow Statement:

The steps involved in preparing the statement are as follows:

1. Determine the change (increase or decrease) in working capital.
2. Determine the adjustments account to be made to net income.
3. For each non-current account on the balance sheet, establish the increase or decrease in that account. Analyze the change to decide whether it is a source (increase) or use (decrease) of working capital.
4. Be sure the total of all sources including those from operations minus the total of all uses equals the change found in working capital in Step 1.

General Rules for Preparing Funds Flow Statement:

The following general rules should be observed while preparing funds flow statement:

1. Increase in a current asset means increase (plus) in working capital.
2. Decrease in a current asset means decrease (minus) in working capital.
3. Increase in a current liability means decrease (minus) in working capital.
4. Decrease in a current liability means increase (plus) in working capital.
5. Increase in current asset and increase in current liability does not affect working capital.
6. Decrease in current asset and decrease in current liability does not affect working capital.
7. Changes in fixed (non-current) assets and fixed (non-current) liabilities affects working capital.

Format of Funds Flow Statement:

A funds flow statement can be prepared in statement form or 'T' form. Both the formats are given below:

Funds Flow Statement (Statement Form)

A. Sources of Funds:

- (i) Funds from Business Operations
- (ii) Sale of Fixed Asset
- (iii) Issue of Shares
- (iv) Issue of Debentures
- (v) Long-term borrowings

Total Sources

B. Application of Funds:

- (i) Loss from Business Operation
- (ii) Payment of Dividend
- (iii) Payment of Tax
- (iv) Purchase of Fixed Asset
- (v) Payment of Long-term Loans
- (vi) Redemption of Debentures
- (vii) Redemption of Preference Shares

Total uses

Not increase/decrease in Working Capital
(Total sources minus Total uses)

Funds Flow Statement ('T' Form)

Source of Funds	₹	Application of Funds	₹
(i) Funds from Business Operations		(i) Loss from Business Operations	
(ii) Sale of Fixed Assets		(ii) Payment of Dividend	
(iii) Issue of Shares		(iii) Payment of Tax	
(iv) Issue of Debentures		(iv) Purchase of Fixed Assets	
(v) Long-term Borrowings		(v) Payment of Long-term Loans	
(vi) Decrease in Working Capital (If application amount is more than the sources amount)		(vi) Redemption of Debentures	
		(vii) Redemption of Preference Shares	
		(viii) Increase in Working Capital (if sources are more than the application amount)	
Total		Total	