



FUNDS FLOW ANALYSIS: PREPARATION OF FUNDS FLOW STATEMENT

[Introductory Class, Second Part]

**Subject: Financial Reporting & financial
Statement Analysis**

Class: B.Com. Semester 6. Hons. & Genl.

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Proforma of a Funds Flow Statement

Funds Flow Statement for the year ended.....

Sources	Rs.	Applications	Rs.
Issue of share capital		Redemption of Preference Shares	
Issue of Debenture		Repayment of Loan	
Loans		Redemption of Debenture	
Sales of Fixed Assets		Purchase of Fixed Assets	
Income from Investments		Purchase of Investments	
Funds from Operations		Payment Dividend	
Decrease in working Capital		Increase in Working Capital	

Alternative Proforma

Funds Flow Statement for the year ended.....

Particulars	Rs.
Sources	
Issue of share capital	
Issue of Debenture	
Loans	
Sales of Fixed Assets	
Income from Investments	
Funds from Operations	
Decrease in working Capital	-----

Applications	
Redemption of Preference Shares	
Repayment of Loan	
Redemption of Debenture	
Purchase of Fixed Assets	
Purchase of Investments	
Payment Dividend	
Increase in Working Capital	-----

Proforma of a Statement of Changes in working Capital

- Statement/ Schedule of Changes in Working Capital for the year ended.....

Particulars	Previous Year or Beginning of the year Rs.	Current Year or End of the year Rs.	Effect on Working Capital	
			Increase Rs.	Decrease Rs.
Current Assets (A)				
Cash in hand				
Cash at Bank				
Short term investments(marketable securities)				
Sundry debtors				
Bills Receivable				
Accrued Income				
Prepaid Expenses				
Stock-in-trade				
Advance Tax				
Short-term loans and advances				

Proforma of a Statement of Changes in working Capital (Contd...)

- Statement/ Schedule of Changes in Working Capital for the year ended.....

Particulars	Previous Year or Beginning of the year Rs.	Current Year or End of the year Rs.	Effect on Working Capital	
			Increase Rs.	Decrease Rs.
Current Liabilities (B)				
Sundry Creditors				
Bills Payable				
Outstanding Expenses				
Income Received in advance				
Bank Overdraft				
Provision for Taxation				
Short-term loans	-----	-----		
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Working Capital (A-B)				
Increase / Decrease in Working Capital				

Workings:

Flow from Other Assts and Liabilities

Dr. Plant & Machinery A/C

Cr.

Dr. Provision for Depreciation (P/M) Cr.

To, Balance b/d ,, Bank A/C (Purchase)		By, Bank A/C (sold) ,, P/L adj. A/c (loss on sale) ,, Depreciation A/C ,, Balance c/d		To, Plant & Machinery A/C Balance c/d		By, Balance b/d ,, P/L adj. A/C (Balancing fig.)	
<u>Investment A/C</u>				<u>Preliminary Exp. A/C</u>			
To, Balance b/d		By, Bank A/c (sold) ,, Balance c/d		To, Balance b/d		By, P/L adj. A/C ,, Balance c/d	

Dr. Equity Share Capital A/C Cr.		Dr. Share Premium A/c Cr.	
To, Balance c/d	By, Balance c/d ,,Bank A/C (fresh issue)	To Balance c/d	By Balance b/d By Bank A/c (fresh issued)
Preference Share Capital A/C		Debenture A/C	
To Bank A/C (Redeemed)	By Balance b/d	To Bank A/C (Redeemed)	By Balance b/d
To balance c/d		To balance c/d	
Proposed Dividend A/C		Provision for Tax A/C	
To Bank A/c (paid)	By Balance b/d	To Bank A/c (paid)	By Balance b/d
,, Balance c/d	By P/L adj. A/C	,, Balance c/d	By P/L adj. A/C (bal. Fig)

➤ Proposed dividend:

- Method-1:if treated as Non C.L. * Not shown in statement of changes in W.C. The payment for proposed dividend shown as application in the Funds Flow statement and debited to Proposed dividend A/C.
- Method2: Proposed dividend treated as C.L. shown in the statement of changes in W.C. Payment will not appear in the funds flow statement

➤ Provision for Taxation:

- Method 1: If treated as a C.L. Shown in the statement of changes in W.C. The payment of tax in the current year will not appear as an application in the funds flow statement, such payment affects cash and provision for taxation.
- Method 2: if treated as non C.L. not shown in the statement of changes in W.C.the payment of tax during the year will be shown in the application of funds. Tax paid during the year debited to this account

Dr. Unclaimed Dividend A/c Cr.		Dr. General Reserve A/C Cr.	
To, P/L adj. A/C (transferred) ,, Balance c/d	By, balance b/d ,, Proposed dividend A/C (unclaimed portion)	To, Capital Redemption reserve fund ,, Balance c/d	By, Balance b/d ,, P/L adj. A/C (bal.Fig.)
Outstanding Expenses A/C		Capital Redemption Reserve Fund A/C	
To, Bank A/C (paid) ,, Balance c/d	By, Balance b/d ,, P/L adj. A/C	To, ,, Balance c/d	By, General Reserve A/C
Prepaid Expenses A/C			
To, Balance b/d ,, Bank A/C (Paid)	By P/L adj. A/C ,, Balance c/d		

Dr.**Adjusted Profit and Loss A/C****Cr.**

Particulars	Rs.	Particulars	Rs.
To,		By, balance b/d	
,, Plant & Machinery(loss)		,, Profit from operation	
,, Provision for depreciation		(Balancing Figure)	
,, Preliminary Expenses			
,, Provision for Tax			
,, Proposed dividend A/c			
,, Prepaid Expenses A/C			
,, Outstanding Expenses A/C			
,, General Reserve A/C			
,, Balance c/d			
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Problem:

- Following the liabilities and assets of Reliance India Ltd. As on 31.03.2017 and 31.03.2018.

Particulars	31.03.2017 Rs.	31.03.2018 Rs.
1. Equity and liabilities		
(1) Shareholders Funds:		
(a) Equity share of Rs. 10 each fully paid	800000	1000000
(b) Reserves and Surplus:		
Securities premium	100000	120000
General reserve	360000	440000
Profit and loss balance	220000	296000
(2) Non current liabilities		
(a) Bank Loan	420000	460000
(3) Current Liabilities		
(a) Trade Payables	166000	216000
(b) provision for tax	200000	210000
Total	2266000	2742000
11. Assets		
(1) Non-Current Assets:		
(a) Property ,Plant and equipment: Tangible	1700000	2060000
(b) Non-Current Investment	96000	124000
(2) Current Assets:		
(a) Inventories	240000	280000
(b) Trade Receivable	160000	190000
© Cash and cash Equivalent	70000	88000
Total	2266000	2742000

Following further particulars for the year 2017-18 are also given

- (i) Dividend paid during the year Rs. 75000.
- (ii) The company sold part of the fixed assets for Rs. 240000 (W.D.V. Rs. 20000). Depreciation charged on fixed assets during the year Rs. 140000.
- (iii) Investment costing Rs. 16000 was sold during the year for Rs. 19000.
- (iv) Interest on Investment received Rs. 7000 and credited to Profit and loss account.
- (v) Interest accrued and paid during the year on Bank Loan Rs, 24000.
- (vi) Income tax provided during the year Rs.198000.

You are required to prepare :

- (a) The schedule of changes in working capital from 31.03.2017 to 31.03.2018.
- (b) The Funds Flow Statement of Reliance India Ltd. For the year ended 31.03.2018.

Solution:

Reliance India Ltd.
Funds Flow Statement for the year ended 31.03.2018

Sources	Rs.	Applications	Rs.
Issues of shares at a Premium (200000+20000)	220000	Dividend Paid	75000
Bank Loan raised	40000	Income tax Paid(note 3)	188000
Sale of property, Plant & equipment (note 1)	24000	Purchases of property, Plant & Equipment (note 1)	520000
Sale of Non-current investment (note 2)	19000	Purchases of Non- Current investment (note 2)	44000
Interest received	7000	Interest Paid (note 4)	24000
Fund from operation (note5)	<u>579000</u>	Increase in Working Capital	38000
	<u>889000</u>		-----
			<u>889000</u>

➤ **Statement of Changes in Working Capital for the year ended 31.03.2018**

Particulars	31.03.2017 Rs.	31.03.2018 Rs.	Effect on Working Capital	
			Increase Rs.	Decrease Rs.
Current Assets (A)				
Inventories	240000	280000	40000	
Trade Receivable	160000	190000	30000	
Cash & Cash equivalent	<u>70000</u>	<u>88000</u>	18000	
	<u>470000</u>	<u>558000</u>		
Current Liabilities (B)				
Trade Payable	<u>166000</u>	<u>216000</u>		50000
	<u>166000</u>	<u>216000</u>		
Working Capital (A-B)	304000	342000		
Increase in Working Capital	<u>38000</u>	=		<u>38000</u>
	<u>342000</u>	<u>342000</u>		<u>38000</u>

Working Note:

Dr. (1) Property, Plant &		Equipment A/C		Dr.
To, Balance b/d A/C	1700000	By, Bank A/C		24000
To, Adj. P/L A/C (24000-20000)	4000	By, Depreciation A/C		140000
To Bank A/C (purchase, Bal.Fig.)	<u>520000</u>	By, Balance c/d		<u>20,60,000</u>
	<u>2224000</u>			<u>2224000</u>
Dr. (2) Non –Current Invest		A/C		Cr
To, Balance b/d	96000	By Bank A/C		19000
To, Profit & loss A/C (19000-16000)	3000			
To, Bank A/C (purchase, Bal.Fig.)	44000	By, Balance c/d		124000
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	143000			143000
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Dr. (3) provision for Tax		A/C		Cr.
To, Bank A/C (tax paid balancing fig.)	188000	By, balance b/d		200000
To, balance c/d	<u>210000</u>	By, Adj. P/L A/C		<u>198000</u>
	<u>398000</u>			<u>398000</u>

Dr.		(4) Bank Loan A/C		Cr.	
To Bank A/c	24000	By Balance b/d		420000	
		By Profit & Loss A/C		24000	
To Balance c/d	<u>460000</u>	By Bank A/C (loan taken)Bal. Fig.		<u>40000</u>	
	<u>484000</u>			<u>484000</u>	
Dr.		(5) Adjusted Profit and		Cr.	
		Loss A/C			
To, Property , Plant & equipment A/C	140000	By, Balance b/d		220000	
To provision for tax A/C	198000	By, Property , Plant & equipment A/C		4000	
To, Dividend A/C	75000	By, Non- Current investment A/C		3000	
To, general Reserve A/C	80000	By, Interest on investment A/C		7000	
To, Interest on Bank Loan	24000	By, Funds from operations		579000	
To, Balance c/d	<u>296000</u>	(Balancing. figure)		<u>-----</u>	
	<u>813000</u>			<u>813000</u>	