



SRI AKILANDESWARI WOMEN'S COLLEGE, WANDIWASH

ACCOUNTING FOR MANAGERIAL DECISION

Class : I PG Commerce

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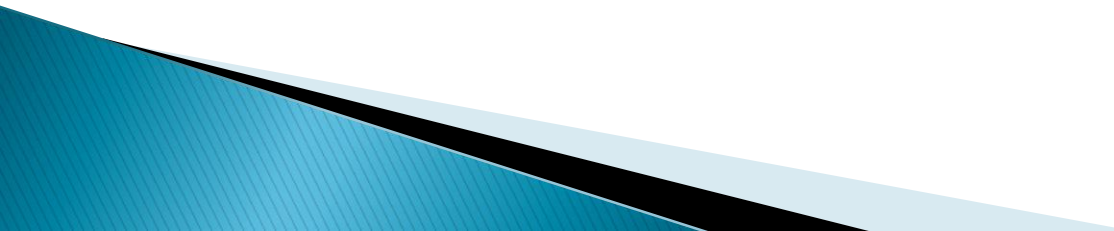
Fund Flow Statement

Definition:

Fund Flow Statement implies a snapshot of the movement of funds, i.e. inflow or outflows of the firm's financial assets for a specific period. It represents, “**from where the funds are received and where the funds are utilised**” by the company during a particular period.

The word ‘**fund**’ refers to a sum of money, which is used to finance the firm's day to day operations and acquire assets for the business. The **flow of funds** represents the movement of funds, i.e. the change in economic resources, from one asset or liability to another. In this way, the **fund flow statement** implies a method of analysing the changes in the firm's financial position, between two balance sheet dates.

Working Capital Statement (or) Schedule of changes in Working Capital

- ▶ The Principle for preparation of Working Capital Statement
 - ▶ Increase in Current Assets – Increase in Working Capital
 - ▶ Decrease in Current Assets – Decrease in Working Capital
 - ▶ Increase in Current Liabilities – Decrease in Working Capital
 - ▶ Decrease in Current Liabilities – Increase in Working Capital
- 

Specimen of the Working Capital Statement

Schedule of Changes in Working Capital

(or)

Statement of Changes in Working Capital

Particulars	Year Rs.	Year Rs.	Decrease Rs.	Increase Rs.
Current Assets:				
Cash	xxx	xxx	xxx	-
Bank Balance	xxx	xxx	xxx	-
Stock	Xxx	xxx	-	xxx
Sundry debtors	xxx	xxx	xxx	-
Trading Investments	xxx	xxx	-	xxx
Prepaid expenses	xxx	xxx	xxx	-
Total (A)	xxx	xxx		

Cont:

Current Liabilities:				
Creditors	xxx	xxx	-	xxx
Bills payable	xxx	xxx	xxx	-
Outstanding expenses	xxx	xxx	-	xxx
Short term loans	xxx	xxx	xxx	-
Bank overdraft	xxx	xxx	-	xxx
Total (B)	xxx	xxx		
Working Capital(A-B)	xxx	xxx		
Net Increase/ Decrease in working capital	Xxx		-	Xxx
	<hr/>	<hr/>	<hr/>	<hr/>
	Xxx	Xxx	Xxx	Xxx
	<hr/>	<hr/>	<hr/>	<hr/>

Ex: 1

Prepare a schedule of changes in working capital from the Balance Sheet data given below:

Balance Sheets

Liabilities	31.12.96	31.12.97		31.12.96	31.12.7
Share capital	3,00,000	3,75,000	Machinery	70,000	1,00,000
Creditors	1,06,000	70,000	Stock in trade	1,21,000	1,36,000
P& L Account	14,000	31,000	Debtors	1,81,000	1,70,000
			Cash	48,000	70,000
	4,20,000	4,76,000		4,20,000	4,76,000

Statement of Changes in Working Capital

Particulars	Year Rs.	Year Rs.	Changes in	Working Capital
			Increase Rs.	Decrease Rs.
Current Asset:				
Cash	48,000	70,000	22,000	–
Stock in trade	1,21,000	1,36,000	15,000	–
Debtors	1,81,000	1,70,000	–	11,000
Total (A)	3,50,000	3,76,000		
Current Liabilities:				
Creditors (B)	1,06,000	70,000	36,000	–
Working Capital(A–B)	2,44,000	3,06,000		
Increase in working capital	62,000	–	–	62,000
	3,06,000	3,06,000	73,000	73,000

Calculation of funds from operation

Statement of Funds from Operations

Particulars		Amount
Net Profit After Tax for the year		xxx
Add: Non-Operating Expenses:		
Depreciation	xxx	
Loss on Sale of Fixed Assets	xxx	
Interest on Debentures	xxx	
Goodwill Written Off	xxx	
Provision for Tax	xxx	
Proposed Dividend	xxx	
Interim Dividend	xxx	
Transfer from Statement of Profit & Loss	xxx	xxx
Less: Non-Operating Incomes:		
Interest on Investment	xxx	
Dividend Received	xxx	
Profit on Sale of Fixed Assets	xxx	
Interest on Bank Deposit	xxx	
Refund of Tax	xxx	(xxx)
Net Fund Flow From Operations		xxx

Cont:

Adjusted Profit & Loss A/C

Particulars	Rs.	Particulars	Rs.
To Depreciation	xxx	By Balance b/d	Xxx
To Loss on sale of fixed assets	xxx	By Profit on sale of fixed assets	xxx
To Loss on sale of Investments	xxx	By Profit on sale of investments	Xxx
To Goodwill written off	Xxx	By Income from Investments	Xxx
To Discount on debentures written off	xxx	By Income tax refund	Xxx
To Provision for tax	Xxx	By Funds from operations(Bal.fig)	xxx
To Proposed dividend	Xxx		
To Balanced c/d	Xxx		
	-----		-----
	Xxx		Xxx
	-----		-----

Ex:6/4.70

Calculate funds from operations from the following:

Particulars	Rs.	Particulars	Rs.
To Rent	10,000	By Gross profit	9,86,000
To Salary	25,000		
To Depreciation on furniture	3,000		
To Discount on issue of shares	10,000		
To Goodwill written off	5,000		
To Preliminary expenses	6,000		
To Net profit	9,27,000		
	<u>9,86,000</u>		<u>9,86,000</u>
	-----		-----

Sol:

Statement of Funds from Operation

Particulars	Rs.	Rs.
Net profit		9,27,000
Add:		
Depreciation on furniture	3,000	
Discount on issue of shares	10,000	
Goodwill written off	5,000	
Preliminary expenses	6,000	
	-----	24,000
Funds From operations		----- 9,51,000 -----

Ex: 8 /4.71

From the following information relating to Bright., calculate funds lost in operation.

Particulars	Rs.
Net loss for the year	90,000
Dividend received	7,000
Depreciation charged	10,000
Profit on sale of assets	5,000
Refund of tax	2,000

Calculation of Funds from operation

Particulars	Rs.	Rs.
Net loss for the year		90,000
Add:		
Depreciation charged	10,000 -----	10,000 -----
		80,000
Less:		
Dividend received	7,000	
Profit on sale of assets	5,000	
Refund of tax	2,000 -----	14,000
Funds lost from operation		94,000 -----

Ex:12/4.73

Find the funds from operations from the following data:

Opening balance of P&L A/c Rs.60,000

Closing balance of P&L A/c Rs.30,000

The following items appeared in P&L A/c:

Interim dividend paid Rs.20,000, Proposed dividend Rs.30,000, Depreciation Rs.50,000, Preliminary expenses Rs.1000, Loss on sale of machinery Rs.3,000, General reserve Rs.5,000, Sinking fund Rs.10,000, Salaries paid Rs.3,000, Profit on sale of car Rs.4,000, and Tax paid Rs.5,000

Sol:

Profit and Loss A/c

Particulars	Rs.	Particulars	Rs.
To Interim dividend paid	20,000	By Balance b/d	60,000
To Proposed dividend	30,000	By Profit on sale of car	4,000
To Depreciation	50,000	By Funds from operation (B/F)	90,000
To Preliminary expenses	1,000		
To Loss on sale of machinery	3,000		
To General reserve	5,000		
To Tax paid	5,000		
To sinking fund	10,000		
To Balance c/d	30,000		
	<u>1,54,000</u>		<u>1,54,000</u>

Funds Flow Statement

Fund Flow Statement

Particulars	Amount
Sources of Funds:	
Funds from Operations	xxx
Sale of Fixed Assets	xxx
Sale of Investments	xxx
Issue of Shares	xxx
Issue of Debentures	xxx
Long Term Borrowings	xxx
Total (A)	xxx
Application of Funds:	
Loss from Operations	xxx
Payment of Dividend	xxx
Payment of Taxes	xxx
Purchase of Fixed Assets	xxx
Repayment of Loans	xxx
Redemption of Debentures	xxx
Redemption of Preference Shares	xxx
Total (B)	xxx
Net Increase or Decrease in Working Capital (A-B)	xxx

Funds Flow Statement

Sources of Funds	Rs.	Applications of Funds	Rs.
Funds from operation	xxx	Outflow of funds on account	Xxx
Issue of shares	xxx	Repayment of long-term loans	Xxx
Issue of Debentures	xxx	Redemption of preference shares	Xxx
Sale of fixed assets	xxx	Redemption of Debentures	Xxx
Long term loans borrowed	xxx	Purchase of fixed assets	Xxx
Investments sold	xxx	Tax paid	Xxx
Non- trading income	Xxx	Dividend paid	Xxx
Decrease in working capital(B/F)	Xxx	Increase in working capital (B/F)	xxx
	-----		-----
	Xxx		Xxx
	-----		-----

Ascertaining Hidden Information

- (a) Ascertain the amount of Dividend and Tax paid during 1999 from the following:

Particulars	31.12.98	31.12.99
Provision for tax	1,35,000	1,60,000
	80,000	1,00,000

The Profit and Loss Account for 1999 was debited with Rs. 1,20,000 for provision for tax and Rs. 85,000 for proposed dividend was debited to the appropriation account.

- (b) Profit and Loss Account of Satyam Ltd. Showed balance of Rs. 1,80,000 and Rs. 1,30,000 on 31.12.96 and 31.12.97 respectively. The reported income for the year 1996 was Rs. 1,10,000. During 1996, Rs. 40,000 was transferred to debenture redemption fund and a bonus dividend was declared to the shareholders amounting to Rs. 1,00,000.

You are required to ascertain the cash dividend paid, if any.

Soln:

Provision for Tax Account

Particulars	RS.	Particulars	Rs.
To Bank(tax paid B/F)	95,000	By balance b/d	1,35,000
To Balance c/d	1,60,000	By P&L A/c (current year)	1,20,000
	<u>2,55,000</u>		<u>2,55,000</u>

(b) Soln:

Proposed Dividend Account

Particulars	Rs.	Particulars	Rs.
To Bank(Dividend paid B/F)	65,000	By Balance b/d	80,000
To Balance c/d	1,60,000	By P & L A/c(current year)	85,000
	<u>1,65,000</u>		<u>1,65,000</u>
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(b) Soln:

Reconciliation of Profits

Particulars	Rs.
Opening Balance of P & L A/c	1,80,000
	1,10,000

	2,90,000
Less: Transfer to debenture redemption	40,000

	2,50,000
Less: Closing Balance of P & L A/c	1,30,000

Total Dividends	1,20,000

Less Bonus dividend	1,00,000

	20,000

CONT:

The following were part of the Trial Balance of Sundaram & Co. Ltd.

Particulars	31.12.97 Rs.	31.12.98 Rs.
Investments	4,00,000	4,60,000
Land & Buildings	7,00,000	9,00,000

During the year 1998, investment of the book value of Rs.1,00,000 were sold for Rs. 1,30,000 and the profit was credited to P & L A/c. Land and buildings purchased were for Rs.3,00,000. Depreciation charged on the buildings in 1998 was Rs.60,000. Loss on sale of buildings was Rs. 8,000.

Prepare the relevant accounts and show how the above items appear in Adjusted Profit and Loss Account and also in the Funds Flow Statement

Solu:

Investment Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	4,00,000	By Bank (sale)	1,30,000
To P & L A/c(Profit on sale 1,30,000-1,00,000)	30,000	By Balance c/d	4,60,000
To Bank (purchase B/F)	1,60,000		
	<u>5,90,000</u>		<u>5,90,000</u>
	-----		-----

Solu:

Land and Building A/c

Particulars	Rs.	Particulars	Rs.
To Bank b/d	7,00,000	By Depreciation	60,000
To Bank (purchase)	3,00,000	By P & L A/c (Loss on sale)	8,000
		By Bank (sale B/F)	32,000
		By Balance c/d	9,00,000
	<u>10,00,000</u>		<u>10,00,000</u>
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