

Course: B.Com Part III

Paper: VI

Topic: Fund Flow Statement

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Meaning of Funds Flow Statement:

Funds flow statement is a statement which discloses the analytical information about the different sources of a fund and the application of the same in an accounting cycle. It deals with the transactions which change either the amount of current assets and current liabilities (in the form of decrease or increase in working capital) or fixed assets, long-term loans including ownership fund.

It gives a clear picture about the movement of funds between the opening and closing dates of the Balance Sheet. It is also called the Statement of Sources and Applications of Funds, Movement of Funds Statement; Where Got—Where Gone Statement; Inflow and Outflow of Fund Statement, etc. No doubt, Funds Flow Statement is an important indicator of financial analysis and control. It is valuable and also helps to determine how the funds are financed. The financial analyst can evaluate the future flows of a firm on the basis of past data.

Objective of Preparing a Fund Flow Statement:

The main purpose of preparing a Funds Flow Statement is that it reveals clearly the important items relating to sources and applications of funds of fixed assets, long-term loans including

capital. It also informs how far the assets derived from normal activities of business are being utilized properly with adequate consideration.

Secondly, it also reveals how much out of the total funds is being collected by disposing of fixed assets, how much from issuing shares or debentures, how much from long-term or short-term loans, and how much from normal operational activities of the business.

Thirdly, it also provides the information about the specific utilization of such funds, i.e. how much has been applied for acquiring fixed assets, how much for repayment of long-term or short-term loans as well as for payment of tax and dividend etc.

Lastly, it helps the management to prepare budgets and formulate the policies that will be adopted for future operational activities.

Significance and Importance of Funds Flow Statement:

Since traditional reports (i.e. Income Statement/Profit and Loss Account, and Balance Sheet) are not very informative, a financial analyst has to depend on some other report—Funds Flow Statement. In other words, along with the traditional sources of information, some other sources of information are absolutely required in order to take the challenge offered by modern business.

Funds Flow Statement, no doubt, caters to the needs of management. This is because a Funds Flow Statement not only presents the Balance Sheet values for consecutive two years, it also ascertains the changes of working capital—which is a very important indicator.

It not only reveals the source from which additional working capital has been financed but also, at the same time, the use of such funds. Moreover, from a projected funds flow statement the

management can easily ascertain the adequacy or inadequacy of working capital, i.e., it helps in decision-making in a number of ways.