

## CHAPTER (4)

### Fund Flow Statement

#### كشف التدفق المالي

#### ❖ Concept of Fund : مفهوم المال

- Fund refers to economic value of assets expressed in terms of money.  
المال : يشير الى القيمة الاقتصادية للموجودات معبر عنها بصيغ النقود
- Funds is also taken as synonymous to working capital which is the excess of current assets over current liabilities.  
الاموال : ايضا تؤخذ كمرادف لرأس المال العامل الذي يمثل زيادة الموجودات المتداولة على المطلوبات المتداولة

#### ❖ Fund Flow Statement (Meaning) معنى كشف تدفق الاموال

- Fund flow statement is a statement showing sources and application of funds for a period of time.  
كشف تدفق الاموال : هو الكشف الذي يبين موارد الاموال واستخداماتها لمدة محددة من الزمن
- Fund flow statement is one of the valuable tool in the hand of management to evaluate the uses of funds by the organization and in determining as to how these uses are financed.  
كشف تدفق الاموال : هو اداة قيمة بيد الادارة لتقييم استعمالات الاموال من قبل الادارة وتحديد كيفية تمويل تلك الاستعمالات
- Fund flow statement is a statement in summary form that indicates the changes occurring in items of financial condition between two different balance sheet dates .  
كشف التدفق المالي : هو كشف بملخص يشير الى التغيرات الحاصلة في الظروف المالية بين تاريخين مختلفين للميزانية العمومية

#### ❖ Important Definitions of Fund Flow Statements :

##### تعريف مهمة لكشف تدفق الاموال

(a) "The Fund Flow Statement describes the sources from which additional funds were derived and the uses to which these funds were put".

يصف كشف تدفق الاموال المصادر التي تم الحصول منها على اموال اضافية والاستخدامات التي وضعت فيها هذه الاموال .

(b) "The Fund Flow Statement is a statement of sources and application of funds is a technical device designed to analyze the changes in the financial condition of a business enterprise between two dates.



## Preparation of Fund Flow Statement

إعداد كشف تدفق الأموال

### (a) Funds from Operations الأموال من العمليات

- The concept of funds from operations is extremely important.
- Fund from operations is the working capital flow arising out of operating activities.
- In calculating funds from operations, non-business expenses like dividend paid as well as non-cash expenses like depreciation etc. are added to the net profits shown by the Profit and Loss A/c.
- Similarly , non – cash as well as non - business income is deducted from net profits.

The method of finding out funds from operations is as follows :

#### Adjusted Profit and Loss A/c

Particulars		Particulars	
<b>To Non-cash Items :</b> 1. Depreciation on fixed assets 2. Preliminary expenses written-off 3. Goodwill written-off 4. Discount on issue of shares and debentures written-off 5. Transfer to reserve 6. Proposed dividend		By Balance b/d (Opening Balance) <b>By Non-operating Income :</b> 1. Interest received 2. Profit on sale of fixed assets 3. Dividend received 4. Refund of taxation 5. Other items	
7. Loss on sale of assets 8. Provision for taxation To Dividend Paid To Income Tax Paid To Balance c/d (Closing Balance)		By Funds from Operations (Balancing Figure)	
<b>Total</b>		<b>Total</b>	

- The funds from operations can also be calculated by preparing a statement.
- The items shown on the debit side of the adjusted Profit and Loss A/c. are added in the net profits while the items on the credit side are deducted from net profits.

**(a) Statement of Changes in Working Capital** كشف تغيرات رأس المال العامل

- It shows net increase or decrease in working capital.

يبين صافي الزيادة او النقصان في رأس المال العامل

- In the funds flow statement, net increase in working capital is shown on the application side, while net decrease in working capital is shown on the sources side.

في كشف تدفق الاموال فان صافي الزيادة في رأس المال العامل تظهر في جانب الاستخدامات بينما صافي النقصان في رأس المال العامل يظهر في جانب المصادر

In order to find out this figure, the following statement is prepared :

**statement showing Changes in Working Capital**

Particulars	Previous Year	Current Year	Increase/ Decrease in Working Capital
<b>1.Current Assets</b>			
Cash			
Debtors			
Bills Receivable			
Stock			
Prepaid expenses			
Income outstanding			
Short-term investments			
<b>II. Current Liabilities:</b>			
Creditors			
Bills payable			
Bank overdraft			
Expenses outstanding			
Short-term loans			
<b>Total</b>			

**Net Increase / Decrease In Working Capital (I) - (II):**

**Notes:**

- Working Capital = Current Assets - Current Liabilities.
- Increase in Current Assets means Increase in Working Capital.
- Decrease in Current Assets means Decrease in Working Capital.
- Increase in Current Liabilities means Decrease in Working Capital.
- Decrease in Current Liabilities means Increase in Working Capital.

**(c) Funds Flow Statement** كشف تدفق الاموال

1. Funds flow statement is a financial statement drawn to know the changes in financial position over the year.

### Preformat of Fund Flow Statement:

#### **Funds Flow Statement for the year ended on 31<sup>st</sup> March, 20XX**

<b>Sources</b>	<b>IQD</b>	<b>Application</b>	<b>IQD</b>
1. Funds from business operations	-	1. Loss of funds due to operations	-
2. Issue of additional capital	-	2. Redemption of preference Shares	-
3. Issue of debentures	-	3. Redemption of debentures	-
4. Sale of investments	-	4. Purchase of investments	-
5. Sale of Assets	-	5. Purchase of assets	-
6. Loans raised	-	6. Payment of loans	-
7. Non-trading receipts	-	7. Tax paid	-
8. Decrease in working capital	-	8. Dividend paid	-
		9. Non-trading payments	-
		10. Increase in working capital	-
<b>Total</b>	<b>-</b>	<b>Total</b>	<b>-</b>

### **Exercise No. 1**

Prepare a Fund Flow Statement from the following balance sheets of ABC Company :

<b>Particulars</b>	<b>January 1, 2018</b>	<b>December 31, 2018</b>
	<b>IQD</b>	<b>IQD</b>
Cash	40,000	44,400
Accounts Receivable	10,000	20,700
Inventories	15,000	15,000
Land	4,000	4,000
Buildings	20,000	16,000
Equipment	15,000	17,000
Accumulated Depreciation	(5,000)	(2,800)
Patents	1,000	900
<b>Total Assets</b>	<b>100,000</b>	<b>115,200</b>
Current Liabilities	30,000	32,000
Bills Payable	22,000	22,000
Bills Payable Discount	(2,000)	(1,800)
Capital Stock	35,000	43,500
Retained Earnings	15,000	19,500
<b>Total Liabilities</b>	<b>100,000</b>	<b>115,200</b>

### **Additional Information**

1. Income for the period was IQD 10,000.
2. A building that cost IQD 4,000 and which had a book value of IQD 1,000 was sold for IQD 1,400.

3. The depreciation charge for the period was IQD 800.
4. There was an issue of IQD 5,000 of common stock.
5. Cash dividends of IQD 2,000 and stock dividends of IQD 3,500 were declared.

**Solution:**

**Working Notes:**

**1) Computation of Profit on Sale of Building**

Particulars	IQD
Acquisition Cost	4,000
<b>Less</b> : Depreciation to the date of sale (4,000 - 1,000) (Acquisition Cost - Undepreciated Book Value)	3,000
<b>Undepreciated Book Value of Building Sold</b>	1,000
Sales Price	1,400
<b>Profit on Sale of Building</b>	<b>400</b>

This IQD 400 has been credited to P & L A/c and IQD 10,000 profit for the year has been arrived at after credited profit of IQD 400. Since this profit is not an item of trading profit, it should be deducted from the profit figure to arrive at funds from operations. IQD 1,400 sales price of the building should be considered at an item of source of funds in the funds flow statement.

**(2) Calculation of Funds from Operations :**

Particulars	IQD
Income for the Period (Given)	10,000
<b>Add</b> : Depreciation <span style="float: right;">IQD 800</span>	
<b>Add</b> : Amortization of Patents <span style="float: right;">IQD 100</span>	
<b>Add</b> : Amortization of Discount Bonds <span style="float: right;">IQD 200</span>	1,100
	11,100
<b>Less</b> : Profit on Sale of Building (W. N. -1)	400
<b>Funds from Operations</b>	<b>10,700</b>

**(3) Schedule of Changes in Working Capital:**

Particulars	1-1-2018	31-12-2018	Changes in Working Capital	
	(IQD)	(IQD)	Increase (IQD)	Decrease (IQD)
<b>(A) Current Assets (CA):</b>				
Cash	40,000	44,400	4,400	-
Accounts Receivable	10,000	20,700	10,700	-
Inventories	15,000	15,000	-	-
	65,000	80,100		
<b>Less : (B) Current Liabilities (CL)</b>				
Current Liabilities	30,000	32,000	-	2,000
	35,000	48,100	15,100	2,000
<b>Net Increase in Working Capital</b>				<b>13,100</b>

<b>(4) Dr.</b>		<b>Equipment A/c</b>		<b>Cr.</b>	
Particulars	IQD	Particulars	IQD		
To Balance b/d	15,000				
To Bank (Purchase)					
(Balancing Fig.)	2,000	By Balance c/d		17,000	
	<b>17,000</b>			<b>17,000</b>	

**ABC Compan****Funds Flow Statement (As on 31-12-2013)**

Sources	IQD	Application	IQD
Funds from Operations	10,700	Purchase of Equipment	2,000
Sale of Building.	1,400	Equity Dividend (Cash)	2,000
Issue of Equity Shares	5,000	Increase in Working Capital	13,100
	<b>17,100</b>		<b>17,100</b>

## Exercise No. 2

The financial position of ABC Ltd. on 1<sup>st</sup> Jan., 2018 and 31<sup>th</sup> December, 2018 was as follows :

Particulars	1 <sup>st</sup> January	31 <sup>st</sup> December
<b>Assets :</b>		
Cash	8,000	7,200
Debtors	70,000	76,800
Stock	50,000	44,000
Land	40,000	60,000
Building	100,000	110,000
Machinery	160,000	172,000
<b>Total Assets</b>	<b>428,000</b>	<b>470,000</b>
<b>Liabilities:</b>		
Current Liabilities	72,000	82,000
Loan from Bank	60,000	50,000
Loan from Associated Co.	-	40,000
Capital and Reserve	296,000	298,000
<b>Total Liabilities</b>	<b>428,000</b>	<b>470,000</b>

During the year IQD 52,000/- were paid as Dividends. The provision for depreciation against machinery as on 1<sup>st</sup> Jan. 2018 was IQD 54,000/- and as on 31<sup>st</sup> Dec. 2018 IQD 72,000/-.

**Required** :prepare the Fund Flow Statement.

## Solution :

### Working Notes :

#### Statement Showing Changes in Working Capital:

Particulars	1-1-2018 IQD	31-12-2018 IQD	Increase in Working Capital IQD	Decreased in Working Capital IQD
<b>(A) Current Assets (CA):</b>				
• Cash	8,000	7,200	-	800
• Debtors	70,000	76,800	6,800	-
• Stock	50,000	44,000	-	6,000
	<b>128,000</b>	<b>128,000</b>		
<b>(B) Current Liabilities (CL):</b>				
• Current Liabilities	72,000	82,000	-	10,000
	<b>72,000</b>	<b>82,000</b>	<b>6,800</b>	<b>16,800</b>

**Net Decrease in Working Capital:** IQD 10,000 (16,800 - 6,800)

Dr.		Building A/c		Cr.	
Particulars	IQD	Particulars	IQD		
To Balance b/d	100,000				
To Bank A/c (Balancing Figure)	10,000	By Balance c/d	110,000		
	<b>110,000</b>		<b>110,000</b>		

Dr.		Machinery A/c		Cr.	
Particulars	IQD	Particulars	IQD		
To Balance b/d	214,000				
(Opening Bal (+) Provision)					
To Bank A/c (Additions) (Bal. Fig.)	30,000	By Balance c/d	244,000		
	<b>244,000</b>		<b>244,000</b>		

Dr.		Provision for Depreciation A/c		Cr.	
Particulars	IQD	Particulars	IQD		
		By Balance b/d	54,000		
To Balance c/d	72,000	By P & L A/c (Balancing Figure)	18,000		
	<b>72,000</b>		<b>72,000</b>		

Dr.		Funds from Operations		Cr.	
Particulars	IQD	Particulars	IQD		
To Depreciation Provision	18,000	By Funds from Operations	72,000		
To Dividend Paid	52,000	(Balancing Figure)			
To Balance c/d	2,000				
	<b>72,000</b>		<b>72,000</b>		

**Funds Flow Statement of ABC Ltd.**  
(As on 31-12-2018)

Sources	IQD	Applications	IQD
Loan from Associate Company	40,000	Purchase of Land	20,000
Funds from Operations	72,000	Purchase of Building	10,000
Net Decreases in Working Capital	10,000	Purchase of Machinery	30,000
		Repayment of Bank Loan	10,000
		Dividend Paid	52,000
	<b>122,000</b>		<b>122,000</b>