

9. FUNDS FLOW STATEMENTS

MODEL - WISE ANALYSIS OF PREVIOUS EXAMINATIONS

No.	Model Name	M - 09	N - 09	M - 10	N - 10	M - 11	N - 11	M - 12	N - 12	M - 13	N - 13	M - 14	N - 14	M - 15	N - 15	M - 16
1.	STATEMENT OF WORKING CAPITAL CHANGES	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4
2.	FUND FLOW STATEMENT	15	-	-	8	-	-	-	12	-	8	-	-	-	-	-
3.	CASH FLOW FROM OPERATIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	CASH FLOW STATEMENT	-	15	-	-	16	-	8	-	8	-	4	-	-	8	-

Theory

Meaning of Fund: Fund means working capital. If current assets of company is more than current liability of business, it is called working capital and working capital's other name is Fund.

$$\text{Fund} = \text{Working capital} = \text{Current assets} - \text{Current liabilities}$$

Meaning of Flow of Funds: Flow of funds includes both "inflow" and "outflow". The term "flow of funds" means "Transfer of economic values from one assets to another and one liability to another." Flow of fund takes place whenever there is change in working capital. This change may be either inflow or outflow of funds. If fixed assets are converted into current asset or fixed liability is converted into current liabilities, these are the flow of fund. But if current assets are changed with current assets or current assets are changed into current liabilities, then, there is no flow of fund because there is no change working capital. Suppose, we get the money from debtor, this is not flow of fund because, working capital is not changed. Both items of current assets and when current assets change into current assets, there will not be change in working capital.

Summary of flow of funds:

Flow of Fund = Fixed asset changes into current asset or current asset changes into fixed assets.

Or

Fixed liability changes into current liability or current liability changes into fixed liability.

Or

Any transaction which attract one current account and one non-current account then it is only flow of fund

Example 1:

Machinery a/c Dr. (Non-current)

To share capital a/c (Non-current)

(Machinery purchase in consideration of share)

In the above transaction both accounts are non current accounts which do not affect working capital and same will remain unaffected i.e. there will be no flow of fund

Example 2:

Machinery a/c Dr. (Non-current)

To Bank a/c (Current)

(Machinery purchase in cash)

In the above transaction one account is non-current and other is current which effect working capital i.e. there will be flow of fund.

There are a few examples of inflow and outflow of funds:

Inflow of Funds:

- a) Issue of Equity Share Capital
- b) Issue of Preference Share Capital
- c) Issue of Debentures/ Long term Loans
- d) Premium on issue of shares/ debentures
- e) Sales of Investments
- f) Sales of Fixed Assets

Outflow of Funds:

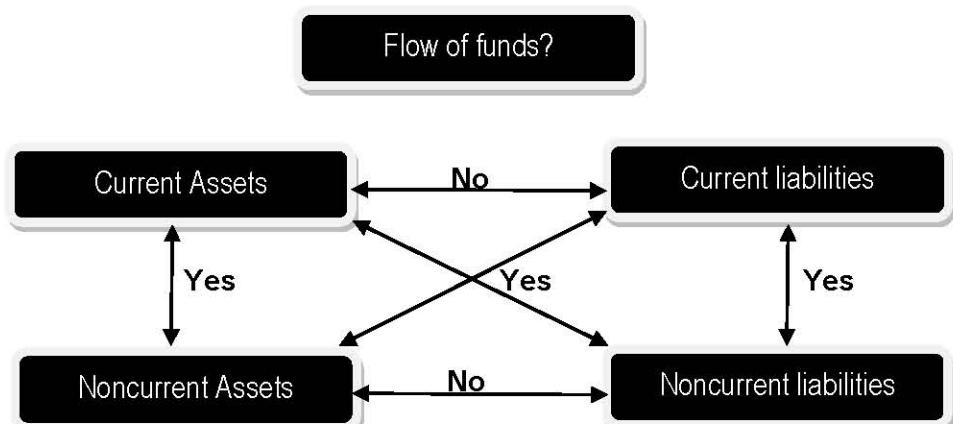
- a) Redemption of Preference Share Capital
- b) Redemption of Debentures
- c) Repayment of Long term Loans
- d) Premium on redemption of preference shares/ debentures
- e) Purchase of Investments/ Fixed Assets
- f) Dividend Paid
- g) Taxes Paid
- h) Drawings by proprietor/ partner

Features of funds flow statement are as under:

- a) Shows sources of funds during a specified period.
- b) Shows uses of those funds during a specified period.
- c) "Funds" used here means working capital, i.e. the excess of current assets over current liabilities.
- d) It is also known as
 - i) Sources and Application of funds
 - ii) Statement of changes in financial position
 - iii) Sources and uses of funds
 - iv) Summary of financial operations
 - v) Where got, where gone statement

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Summary of fund flow: (In diagrammatic presentation):



STEPS FOR PREPARATION OF FUND FLOW STATEMENT:

Step: 1: To prepare statement of Changes of Working Capital

Step: 2: Ascertain the funds from operation

Step 1: To prepare statement of Changes of Working Capital:

- It is very necessary to make statement of changes of working capital. Because net increase in working capital is use of fund and net decrease in working capital is source of fund.
- We take two balance sheets, one is current year balance sheet and other is previous year balance sheet. Then we separate current assets and current liabilities.
- If current assets are more than previous year current assets, it means increase in working capital.
- If current assets are less than previous year current assets, it means decrease in working capital. Because relationship between current assets and working capital is positive and if any changes in current assets, working capital will change in same direction.
- If current liabilities are more than previous year current liabilities, it means decrease in working capital.
- If current liabilities are less than previous year current liabilities, it means increase in working capital.
- Relationship between working capital and current liabilities are inverse.

Summary of Step 1:

Working Capital increase/decrease when	Change in current assets or current liabilities
Increase working capital	<ul style="list-style-type: none"> • Increase in current assets • Decrease in current liabilities
Decrease in working capital	<ul style="list-style-type: none"> • Decrease in current assets
No change in working capital	<ul style="list-style-type: none"> • Realisation from debtors/Bills Receivable • Payment to creditors/Bills Payable • Good sold on credit • Goods purchased on credit

Net working capital increase or decrease when a transaction involves a current account and non-current account.

Statement or schedule of changes in working capital:

Particulars	Previous Year Rs.	Current Year Rs.	Effect on working capital	
			Increase	Decrease
Current Assets				
Cash in hand				
Debtor				
Inventory				
Bills Receivable				
Total Current Assets (A)				
Current Liabilities				
Trade Creditors				
Bills Payable				
Total Current Liabilities (B)				
Total Working Capital (A-B)				
Change in Working Capital				

NOTE: Students may note that in Fund Flow Analysis, sometimes provisions for taxation and proposed dividend is excluded from current liabilities. This is just to show the true payments as outflows. students are advised to state their presumptions clearly, however, where from the question it is implied that these liabilities are to be taken as current liabilities(e.g. the items have been put under the heading 'current liabilities' in the balance sheet), the students are advised to treat them as current liabilities. We have generally taken these two items as non-current liabilities.

Example: Form the following details prepare a statement showing changes in working capital during 2012:

Balance sheet of Rohit as on 31st December

Liabilities	2011 Rs.	2012 Rs.	Assets	2011 Rs.	2012 Rs.
Share capital	5,00,000	6,00,000	Fixed assets Less: Depreciation	10,00,000 3,70,000	11,20,000 4,60,000
Reserves	1,50,000	1,80,000		6,30,000	6,60,000
Profit and Loss A/c	40,000	65,000	Stock	2,40,000	3,70,000
Debentures	3,00,000	2,50,000	Book Debts	2,50,000	2,30,000
Creditors for goods	1,70,000	1,60,000	Cash in hand	80,000	65,000
Provision for tax	60,000	80,000	Preliminary expenses	20,000	15,000
	12,20,000	13,35,000		12,20,000	13,35,000

Solution: The first step is to prepare the schedule of changes in working capital

Schedule of changes in working capital

Particulars	2011 Rs.	2012 Rs.	Increase in working capital Rs.	Decrease in working capital Rs.
Current Asset:				
Stock	2,40,000	3,70,000	1,30,000	--
Book debts	2,50,000	2,30,000	--	20,000
Cash in hand	80,000	60,000	--	20,000
(A)	5,70,000	6,60,000	1,30,000	40,000
Current Liability:				
Creditors for goods (B)	1,70,000	1,60,000	10,000	--
Working capital (A-B)	4,00,000	5,00,000	1,40,000	40,000
Increase in working capital	1,00,000	--	--	1,00,000
	5,00,000	5,50,000	1,40,000	1,40,000

STEP 2: Ascertain the Funds from Operation:

Funds from the operation may be ascertained from following two methods as under:

1. In statement form
2. In account form

Fund from operation is required for preparation of fund flow statement for source of fund side. It can be shown on application of fund side when there is negative fund from operation. Operation means business activity and fund from operation means profit from business activity.

Statement of fund from operations:

The fund flow statement is prepared as per the following Performa:

Statement of Funds from operations for the _____

Particulars	Rs.	Rs.
Net Profit after tax for the year		XXX
Add: Non-Current/Non-Operating Expenses (E.G)		
Depreciation	XX	
Loss on Sale of Fixed Assets	XX	
Interest on Debentures	XX	
Goodwill Written Off	XX	
Provision for Tax	XX	

Proposed Dividend	XX	
Interim Dividend	XX	
Transfer from Statement of Profit & Loss (Profit & Loss Account)	XX	
Other Non-Current & Non-Operating items debited	XX	XXX
Less: Non-Current & Non Operating Incomes (e.g.)		
Interest on Investment	XX	
Dividend Received	XX	
Profit on Sale of Fixed Assets	XX	
Interest on Bank Deposit	XX	
Refund of Tax	XX	
Other Non-Current & Non-Operating items credited	XX	XXX
Net Fund Flow From Operation		XXX

Fund Flow Statement in Account Form**Adjusted Profit & Loss Account for the period _____**

Dr.			Cr.
Particulars	Amount Rs.	Particulars	Amount Rs.
To Non-Current & Non-Operating items Charged:		By Balance b/d	XXX
Transfer to General Reserve	XXX	By Non-Current & Non-Operating Items credited	
Proposed Dividend	XXX	Profit on Sale of Fixed Assets	XXX
Goodwill Written Off	XXX	Income from Investment	XXX
Preliminary Expenses	XXX	Other Non-Current & Non-Operating Items	XXX
Depreciation	XXX	By Net Fund Flow from Operation (Balancing Figure)	XXX
Provision for Taxation	XXX		
Other Non-Current & Non-Operating Items	XXX		
To Balance c/d	XXX		

Rules for drawing up Funds flow Statement

Funds from Trading Operations: It is an internal source of funds. To ascertain it, take the figure of net profit for year as per Profit & Loss Account. This is the figure of net profit after depreciation and provision of income tax for the year but before any appropriations for the year like transfer to General Reserve, Debenture Redemption Reserve etc. To this figure of net profit, add the following amounts:

- Depreciation on fixed assets
- Goodwill, Preliminary Expenses, Cost of Issue of Debentures etc. written off.
- Loss on sale of fixed assets.
- Loss on sale of investments.

From, the total, deduct the following amounts:

- Profit on sale of fixed assets
- Profit on sale of investments
- Profit on revaluation of fixed assets
- Non-operating incomes.

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Issue of Shares: Issue of shares for cash or for any other current assets or in discharge of a current liability is another source of funds. However, shares allotted in consideration of some fixed asset will not result in funds. However, it is recommended that such purchase of fixed assets as well as issue of securities to pay for them is revealed in Funds Flows Statement.

Actual collection on issue of shares should be recorded. For example if shares have been partly called up, only that part which has actually been received will be shown as a source of funds. If shares have been issued at a premium, the amount of share premium collected will also be included. If on the other hand, shares have been issued at discount, the amount of the discount will be deducted to ascertain the amount collected. Also, shares might have been allotted in an earlier period, and in the period for which Funds Flow Statement is prepared only a call might have been made. In such a case, the amount of the call collected will be a source of funds.

Issue of Debentures: Same as shares.

Rising of long-term loans from financial institutions: Like debentures, long-term loans from financial institutions form a source of funds.

Sale proceeds of fixed assets and long-term investments: Sale proceeds of fixed assets and long-term investments should be noted as separate items of sources of funds.

Non operating incomes: Non-operating incomes are also a source of funds.

Purchase of Fixed Assets: For cash or some other current asset is an application of fund.

Redemption of preference Shares and / or Debentures: Payment made to redeem these securities is an application of funds. However, if preference share or debentures are converted into equity shares, it will not result in an application of funds. But for the sake of disclosure, issue of shares on such a conversion as well as redemption of the securities by conversion should be shown in Funds Flow Statements.

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: (PRINTED SOLUTION AVAILABLE) Following are the financial statements of Zed Ltd.:

Balance Sheet as on

Particulars	31.3.2007	31.3.2006
Capital and liabilities		
Share capital	1,67,500	1,50,000
Share premium	3,35,000	2,37,500
Reserves & surplus	1,74,300	1,23,250
Debentures	2,40,000	-
Long-term loans	40,000	50,000
Creditors	28,800	27,100
Bank O.D	7500	6,250
Accrued expenses	4,350	4,600
Income Tax payable	48,250	16,850
	10,45,700	6,15,550
Assets		
Land	3600	3600
Building net of depreciation	6,01,800	1,78,400
Machinery net of Dep.	1,10,850	1,07,050
Investments in A Ltd.	75,000	-
Stock	58,800	46,150
Prepaid expenses	1,900	2,300
Debtors	76,350	77,150
Trade investments	40,000	1,05,000
Cash	77,400	95,900
	10,45,700	6,15,550

Income Statement
For the year ended March 31, 2007

Particulars	Amount
Net Sales	13,50,000
Less: Cost of goods sold and operating expenses (including depreciation on buildings of Rs.6,600 and depreciation on machinery of Rs.11,400)	12,58,950
Net operating profit	91,050
Gain on sale of trade investments	6,400
Gain on sale of machinery	1,850
Profits before tax	99,300
Income-tax	48,250
Profits after tax	51,050

Additional information:

- a) Machinery with a net book value of Rs.9,150 was sold during the year.
- b) The shares of 'A' Ltd. were acquired by issue of debentures

Required: Prepare a Funds Flow Statement (Statement of changes in financial position on Working capital basis) for the year ended March 31, 2007. (PM)(N - 07)

(Solve Problem No: 1,2 of Assignment Problems as rework)

(Ans.: Decrease in working capital Rs.1,06,150, Funds from operations – Rs.67,200)

Note: _____

Problem 2: (PRINTED SOLUTION AVAILABLE) Given below are the balance sheets of Spark Company for the years ending 31st July, 2013 and 31st July, 2014.

Balance Sheet for the year ending on 31st July

	Rs. 2013	Rs. 2014
Capital and Liabilities		
Share capital	3,00,000	3,50,000
General reserve	1,00,000	1,25,000
Capital reserve (profit on sale of investment)	-	5,000
Profit and loss account	50,000	1,00,000
15% Debentures	1,50,000	1,00,000
Accrued expenses	5,000	6,000
Creditors	80,000	1,25,000
Provision for dividend	15,000	17,000
Provision for taxation	35,000	38,000
Total	7,35,000	8,66,000
Assets		
Fixed Assets	5,00,000	6,00,000
Less: Accumulated depreciation	1,00,000	1,25,000
Net fixed assets	4,00,000	4,75,000
Long-term investments (at cost)	90,000	90,000
Stock (at cost)	1,00,000	1,35,000
Debtors (net of provisions for doubtful debts of Rs. 20,000 and Rs. 25,000 respectively for 2013 and 2014)	1,12,500	1,22,500
Bills receivables	20,000	32,500
Prepaid expenses	5,000	6,000
Miscellaneous expenditure	7,500	5,000
Total	7,35,000	8,66,000

Additional Information:

- a) During the year 2014, fixed asset with a net book value of Rs. 5,000 (accumulated depreciation Rs. 15,000) was sold for Rs. 4,000.

- b) During the year 2014, investments costing Rs. 40,000 were sold, and also investments costing Rs. 40,000 were purchased.
- c) Debentures were retired at a premium of 10 percent.
- d) Tax of Rs. 27,500 was paid for 2013.
- e) During 2014, bad debts of Rs. 7,000 were written off against the provision for doubtful debt account.
- f) The proposed dividend for 2013 was paid in 2014.

You are required to prepare a funds flow statement (i.e. statement of changes in financial position on working capital basis) for the year ended 31st July, 2014. (SM)

(Ans.: Increase in working capital Rs.12,500, Funds from operations – Rs.1,71,000)
(Solve Problem No: 3, 4 of Assignment Problems as rework)

Note: _____

Problem 3: (PRINTED SOLUTION AVAILABLE) Treatment of Stock in fund flow.

The summarized balance sheets of Exe. Ltd. as on 31st March, 95 & 96 are as follows:

5Particulars	31.3.95	31.3.96
Fixed Assets: Cost	8,00,000	9,50,000
Less: Depreciation	2,30,000	2,90,000
	5,70,000	6,60,000
Trade Investments	1,00,000	80,000
Current Assets	2,80,000	3,30,000
Preliminary Expenses	20,000	10,000
	9,70,000	10,80,000
Share Capital	3,00,000	4,00,000
Capital Reserve	-	10,000
Debentures Redemption Reserve	1,70,000	2,00,000
Profit & Loss Account	60,000	75,000
Debentures	2,00,000	1,40,000
Liabilities for Goods and Services	1,20,000	1,30,000
Provision for Income Tax	90,000	85,000
Proposed Dividend	30,000	36,000
Unpaid Dividend	-	4,000
	9,70,000	10,80,000

During 1995-96, the company:

- a) Sold one machine for Rs.25,000; the cost of the machine was Rs.50,000 and the depreciation provided on it amounted to Rs.21,000;
- b) Provided Rs.95,000 as depreciation;
- c) Redeemed 30% of the Debentures @ 103;
- d) Sold some trade investments at a profit credited to Capital Reserve: and
- e) Decided to value the stock at cost whereas previously the practice was to value stock at cost less 10%. The stock according to books on 31.3.1995 was Rs.54,000; the stock on 31.3.1996, Rs.75,000 was correctly valued at cost.

You are required to prepare the statement of sources and applications of funds during 95-96.

- i) Prepare a schedule of changes in the working capital.
- ii) Prepare funds flow statement as on 31st March, 1996. (SM)

(Ans.: Increase in working capital Rs.34,000, Funds from operations – Rs.2,70,800)
(Solve Problem No: 5 of Assignment Problems as rework)

Note: _____

Problem 4: (PRINTED SOLUTION AVAILABLE) consider the provision for tax as current liability in fund flow.

Balance sheets of KP Babu Ltd. as on 31st March 2011, &2012 and additional information are as under. Prepare (a) schedule of changes in working capital, (b) Funds flow from operations for the year ended 31st March 2012.

Balance sheets

Liabilities	31.03.11	31.03.12	Assets	31.03.11	31.03.12
Equity share Capital	40,00,000	40,00,000	Land & building	30,00,000	28,00,000
General reserve	8,00,000	9,00,000	Plant & machinery	36,00,000	35,00,000
Profit & loss A/c	5,00,000	7,20,000	Investments (long term)	8,00,000	7,44,000
10% debentures	20,00,000	16,00,000	Stock	9,60,000	17,00,000
Bank loan (long term)	10,00,000	12,00,000	Debtors	12,00,000	15,96,000
Creditors	8,00,000	11,60,000	Prepaid expenses	1,00,000	80,000
Outstanding expenses	40,000	50,000	Cash and bank	2,80,000	1,70,000
Proposed dividend	6,00,000	7,20,000			
Provision for taxation	2,00,000	2,40,000			
	99,40,000	1,05,90,000			
				99,40,000	1,05,90,000

Additional information:

- New machinery for Rs. 6,00,000 was purchased but an old machinery costing Rs. 2,90,000 was sold for Rs. 1,00,000 and accumulated depreciation there on was Rs. 1,50,000.
- 10% debentures were redeemed at 20 % premium.
- Investments (long term) were sold for Rs. 90,000 and its profit was transferred to general reserve.
- Income tax paid during the year 2011-2012 was Rs. 1,60,000.
- An interim dividend of Rs. 2,40,000 has been paid during the year 2011-2012.
- Assume provision for taxation as a current liability and proposed dividend as a Non-current liability.
- Investments (long term) are Non- trade investments.

(PM) (N-08)

(Ans.: Increase in working capital Rs. 5,96,000, Funds from operations – Rs. 21,26,000)
(Solve Problem No: 6 of Assignment Problems as rework)

Note: _____

Problem No 5: (PRINTED SOLUTION AVAILABLE)

Balance Sheets of RST Limited as on March 31, 2008 and March 31, 2009 are as under:

Liabilities	31.3.2008 Rs.	31.3.2009 Rs.	Assets	31.3.2008 Rs.	31.3.2009 Rs.
Equity Share Capital (Rs.10 face value per share)	10,00,000	12,00,000	Land & Building	6,00,000	7,00,000
General Reserve	3,50,000	2,00,000	Plant & Machinery	9,00,000	11,00,000
9% Preference Share Capital	3,00,000	5,00,000	Investments (Longterm)	2,50,000	2,50,000
Share Premium A/c	25,000	4,000	Stock	3,60,000	3,50,000
Profit & Loss A/c	2,00,000	3,00,000	Debtors	3,00,000	3,90,000
8% Debentures	3,00,000	1,00,000	Cash & Bank	1,00,000	95,000
Creditors	2,05,000	3,00,000	Prepaid Expenses	15,000	20,000

Bills Payable	45,000	81,000	Advance Tax Payment	80,000	1,05,000
Provision for Tax	70,000	1,00,000	Preliminary Expenses	40,000	35,000
Proposed Dividend	1,50,000	2,60,000			
	26,45,000	30,45,000		26,45,000	30,45,000

Additional information:

- Depreciation charged on building and plant and machinery during the year 2008-09 were Rs. 50,000 and Rs. 1,20,000 respectively.
- During the year an old machine costing Rs. 1,50,000 was sold for Rs. 32,000. Its written down value was Rs. 40,000 on date of sale.
- During the year, income tax for the year 2007-08 was assessed at Rs. 76,000. A chequ of Rs. 4,000 was received along with the assessment order towards refund of income tax paid in excess, by way of advance tax in earlier years.
- Proposed dividend for 2007-08 was paid during the year 2008-09.
- 9% Preference shares of Rs. 3,00,000, which were due for redemption, were redeemed during the year 2008-09 at a premium of 5%, out of the proceeds of fresh issue of 9% Preference shares.
- Bonus shares were issued to the existing equity shareholders at the rate of one share for every five shares held on 31.3.2008 out of general reserves.
- Debentures were redeemed at the beginning of the year at a premium of 3%.
- Interim dividend paid during the year 2008-09 was Rs. 50,000. Required:
 - Schedule of Changes in Working Capital, and
 - Fund Flow Statement for the year ended March 31, 2009.

(PM)

(Ans.: Decrease in working capital Rs. 51,000, Funds from operations – Rs. 7,49,000)
(Solve Problem No: 7,10 of Assignment Problems as rework)

Note: _____

Problem No 6: (PRINTED SOLUTION AVAILABLE) Given here is the Balance Sheet as on March 31, years 1 and 2 for Zeta Limited. Sales for year 2 was Rs. 2,10,000. Net income after tax was Rs. 7,000. In arriving at net profit, items deducted from sales included, among others, Cost of goods sold – Rs. 1,65,000; Depreciation - Rs. 5,000; Wages and Salaries – Rs. 20,000 and a gain of Rs. 1,000 on the sale of a plant. The plant had a historical cost of Rs. 6,000, a depreciation of Rs. 4,000 had been accumulated for it and it was sold for Rs. 3,000. This was the only asset written off during the year. The company declared and paid Rs. 6,000 as dividends during the year.

Balance Sheet

	March 31, Year 1	March 31, Year 2
	Rs.	Rs.
Liabilities		
Accounts Payable	20,000	18,000
Accrued expenses	2,000	4,000
Income Tax payable	1,000	1,100
Capital Stock	30,000	37,000
Retained earnings	12,650	13,650
	65,650	73,750
Assets		
Cash	5,000	6,000
Accounts receivable	14,000	14,000
Inventory	22,000	8,000

Prepaid Insurance		200		250
Prepaid rent		150		100
Pre-paid property tax		300		400
Land		4,000		8,000
Plant & Equipment	30,000		48,000	
Less: Accumulated Dep.	10,000	20,000	11,000	37,000
		65,650		73,750

You are required to prepare funds flow statement and describe the most significant development revealed by this statement. (RTP)

(Ans.: Decrease in working capital Rs.13,000 , Funds from Business operations – Rs. 11,000)
(Solve Problem No: 8 of Assignment Problems as rework)

Note: _____

Problem 7: (PRINTED SOLUTION AVAILABLE) Benefits of fund flow statement

Given below is the Balance Sheet of X Ltd. as on 31st March, 2011, 2012 and 2013.

(in lakhs)

Liabilities	31.3.11	31.3.12	31.3.13	Assets	31.3.11	31.3.12	31.3.13
Share Capital	70,00	75,00	75,00	Plant and Machinery	80,00	110,00	130,00
Reserves	12,00	16,00	25,00	Investments	35,00	30,00	45,00
Profit & Loss A/c	6,00	7,00	9,00	Debtors	5,00	5,50	5,00
12% debentures	10,00	5,00	10,00	Stock	15,00	15,00	20,00
cash credit	5,00	7,00	12,00	Bank Balance	5,00	3,00	3,25
Sundry creditors	12,00	14,00	18,00				
Provision for Tax	11,00	17,00	28,00				
Proposed Dividend	14,00	22,50	26,25				
	14,000	16,350	20,325		14,000	16,350	20,325

Other Information:

- Depreciation: 2010 - 2011 Rs. 500 lakhs; 2011-12 Rs. 700 lakhs; and 2012-13 Rs. 775 lakhs.
- In 2011-12 a part of the 12% debentures was converted into equity at par.
- In the last three years there was no sale of fixed assets.
- In 2011-12 investment costing Rs. 500 lakhs was sold for Rs. 510 lakhs. The management is confused on the deteriorating liquidity position despite good profit earned by the enterprise. Identify the reasons. Fund Flow Analysis may be adopted for this purpose. Prepare fund flow statement.

(SM,PM)

(Ans.: Decrease in working capital in 2011-12: Rs.550 ,in 2012-13:Rs.425. , Funds from Business operations – Rs. 5140,7300.)

Note: _____

Problem 8: (PRINTED SOLUTION AVAILABLE) Following are the summarized Balance Sheets of JKM Limited as on 31st March, 2011 and 2012:

Liabilities	31st March		Assets	31st March	
	2011 (Rs.)	2012 (Rs.)		2011 (Rs)	2012 (Rs.)
Equity Share Capital	50.00	55.00	Goodwill	5.00	4.20
Capital Reserve	-	2.50	Land & Building	20.00	18.00
General Reserve	4.00	6.00	Plant& Machinery	22.00	31.00
Profit & Loss Account	5.30	6.70	Investment	2.00	3.50

Proposed Dividend	8.00	11.00	Stock	8.60	12.70
Bills Payable	2.00	1.80	Sundry Debtors	10.20	13.00
Sundry Creditors	3.50	4.60	Bills Receivables	1.00	0.70
Provision for Tax	4.00	5.00	Cash in hand & Bank	7.20	8.90
	76.80	92.60		76.80	92.60

Additional Information:

- i) A machine (original cost Rs. 2,80,000; Book Value Rs.1,70,000) was sold during the year for Rs.1,50,000
- ii) Depreciation for 2011-12 was amounted to Rs.3,00,000 on plant and machinery and Rs.50,000 on land and building.
- iii) A piece of land had been sold out on 01-11-2011 and the profit on the sale has been credited in capital reserve.
- iv) Rs.40,000 is received as dividend including Rs.15,000 pre-acquisition profit, which is credited to investment account.
- v) An interim dividend of Rs.2,50,000 has been paid during the year 2011-12.
- vi) Income tax paid during the year 2011-12, amounted to Rs.3,80,000.

Required:

(A) Prepare a schedule of changes in the working capital.

(B) Prepare funds flow statement as on 31st March, 2012.

(PM) (Ans.: Increase in working capital Rs.7.4 Lakhs, Funds from operations – Rs.26.15 Lakhs)

(SAME N 12,12M)

(Solve Problem No: 9 of Assignment Problems as rework)

Note: _____

Problem 9: (PRINTED SOLUTION AVAILABLE) Prepare Statement of changes in Financial Position on working capital basis.

The following are the financial statements of Noah Limited.

Noah Limited

Balance Sheets

	31st March 2014	31st March 2013
Assets		
Cash	3,49,600	4,83,600
Trade Investments	1,60,000	4,20,000
Debtors	3,05,400	3,08,600
Stock	2,35,200	1,84,600
Prepaid Expenses	7,600	9,200
Investment in A Ltd.	3,00,000	-
Land	14,400	14,400
Buildings, Net of Depreciation	24,07,200	7,13,600
Machinery, Net of Depreciation	4,43,400	4,28,200
Total Assets	42,22,800	25,62,200
Liabilities		
Creditors	1,15,200	1,08,400
Bank Overdraft	30,000	25,000
Accrued Expenses	17,400	18,400
Income-Tax Payable	1,93,000	1,67,400
Current Installment due on Long-Term Loans	40,000	-
Long-Term Loans	1,60,000	2,00,000
Debentures, Net of Discount	9,60,000	-

Share Capital, Rs. 10 par value	6,70,000	6,00,000
Share Premium	13,40,000	9,50,000
Reserves and Surplus	6,97,200	4,93,000
Total Liabilities	42,22,800	25,62,200

Noah Limited**Income Statement for the year ended 31st March, 2014**

	(Rs.)
Sales	16,92,400
Cost of goods sold and operating expenses including depreciation on buildings of Rs. 26,400 and depreciation on machinery of Rs. 45,600	11,91,200
Operating Profit	5,01,200
Gain on Sale of Trade Investments	25,600
Gain on Sale of Machinery	7,400
Profit before Taxes	5,34,200
Income Taxes	2,09,400
Net Profit	3,24,800

Additional Information:

- Machinery with a net book value of Rs. 36,600 was sold during the year.
- The shares of A Ltd. were acquired upon a payment of Rs. 1,20,000 in cash and the issuance of 3,000 shares of Noah limited. The share of Noah Limited was selling for Rs. 60 a share at that time.
- A new building was purchased at a cost of Rs. 17,20,000.
- Debentures having a face value of Rs. 100 each were issued in January 2014, at 96.
- The cost of trade investments sold was Rs. 2,60,000.
- The company issued 4,000 shares for Rs. 2,80,000.
- Cash dividends of Rs. 1.80 a share were paid on 67,000 outstanding shares.

You are required to prepare a statement of changes in financial position on working capital basis of Noah limited for the year ended 31st March, 2014. (RTP)

(Ans.: Net Decrease in Working Capital-Rs. 4,24,600)

(Solve Problem No: 11 of Assignment Problems as rework)

Note: _____

ASSIGNMENT PROBLEMS**Problem 1: Preparation of statement of Changes of Working Capital (step 1)**

From the following data, prepare a schedule of changes in working capital.

	1-1-98	31-12-98		1-1-98	31-12-98
Land	44,000	68,000	Goodwill	13,000	13,000
Debentures	20,000	25,000	Prepaid Exp.	70	300
Stock	30,000	28,000	Bills Payable	1,500	900
Machinery	1,80,000	1,80,000	Bills Receivable	3,000	2,000
Trade Creditors	8,000	5,320	Liability for tax	3,220	5,170
Cash	29,000	9,000	Equity Share Capital	1,00,000	1,20,000
Long Term Investments	10,000	6,250	Pref. Share Cap.	1,20,000	75,000
Accrued Expenses	350	160	Mortgaged Loan	50,000	40,000
Trade Debtors	19,000	20,000	P & L Appro. A/c	25,000	55,000

(Ans.: Net decrease in WC Rs. 20,250)

Problem 2: Computation of fund from operations (step 2)

A company's current year profit is Rs.70,000 after incorporating the following:

Particulars	Amount	Particulars	Amount
Loss on sale of equipment	9,000	Gain from sale of Assets	40,000
Premium of Red. Of Debentures	1,500	Provision for Tax	22,000
Discount on issue of Debentures	2,000	Dividend Income	4,000
Depreciation on Machinery	20,000	Transfer to general reserve	5,000
Depletion of natural resources	10,000	Preliminary Expenses	1,000
Interim Dividend	25,000	Profit on revaluation	2,500
		Loss on sale of investment	1,000

Find out Fund from operations.

(Ans.: Funds from business operations Rs. 1,20,000)

Problem 3: Preparation of fund flow statement at the end of the very first year of operations of a business.

Balance sheet of Kumar Ltd. as on 31.03.2013

Liabilities	31.03.13	Assets	31.3.13
Share Capital	8,00,000	Fixed Assets	12,00,000
Profit & Loss A/c	20,000	Less: Dep.	1,00,000
8% debentures	3,00,000		11,00,000
Sundry creditors	2,00,000	Debtors	2,00,000
Proposed Dividend	80,000	Stock	2,00,000
Provision for Tax	1,00,000	Bank Balance	1,00,000
Bills payable	1,00,000	Preliminary Exp.	20,000
	16,00,000	(written off)	(20,000)
			16,00,000

Prepare the fund flow statement for the first year end 31.03.2013.

(Ans: Funds from operations Rs. 3,20,000; Applications of Fund Rs. 14,20,000)

Problem 4: The Machinery Account of ABC Ltd. gives a balance on Rs.1,00,000 in the beginning while at the end of the year the balance is Rs.1,50,000. The Provision for depreciation A/c shows a balance of Rs.30,000 and Rs.40,000 respectively. During the year, a machinery whose original cost was Rs.5,000 and on which depreciation of Rs.4,000 had been charged so far, is sold for Rs.2,000. Find out the amount of depreciation charged during the year and machinery purchased. (Ans.: Depreciation – Rs.14,000, Machinery Purchase – Rs.55,000)

Problem 5: From the information provided by Sai Limited, you are required to prepare a statement of changes in working capital and the fund flow statement for the year.

Balance Sheet as at 31st March 2014 (All figures in Rupees)

Assets	2013	2014	Liabilities	2013	2014
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Current Assets			Current Liabilities		
Cash in Hand	10,000	2,000	Sundry Creditors	3,00,000	2,00,000
Bank Balances	20,000	8,000	Provision for Taxes	10,000	15,000
Sundry Debtors	2,10,000	1,80,000	Proposed Dividend	50,000	60,000
Stock	4,00,000	4,50,000			
Total Current Assets	6,40,000	6,40,000	Total Current Liabilities	3,60,000	2,75,000
Fixed Assets					
Fixed Assets	8,00,000	11,00,000			

Less: Accumulated Depreciation	1,60,000,	2,70,000			
Total Fixed Assets	6,40,000	8,30,000	Shareholder's Funds		
Other Assets			Equity Share Capital	9,80,000	17,15,000
Investments	1,60,000	6,70,000	General Reserves	1,00,000	1,50,000
Total Other Assets	1,60,000	6,70,000	Total Shareholders' Funds	10,80,000	18,65,000
Total Assets	14,40,000	21,40,000	Total Liabilities	14,40,000	21,40,000

It is also known that machinery costing Rs.1,00,000 with an accumulated depreciation of Rs. 30,000 was sold for Rs.60,000. (RTP NOV 14)

(Ans.: Increase in working capital Rs.1,50,000, Funds from operations – Rs.2,00,000)

Problem 6: The following are the Balance Sheet of Peacock Limited as on 31st March, 20X8 and 31st March, 20X9.

	Rs. 31st March, 20X8	Rs. 31st March, 20X9
Liabilities		
Share capital	44,00,000	66,00,000
Reserves and Surplus	27,50,000	38,50,000
Depreciation	8,80,000	13,20,000
Bank Loan	17,60,000	8,80,000
Sundry Creditors	13,20,000	14,85,000
Proposed dividend	4,00,000	6,00,000
Provision for taxation	4,00,000	5,50,000
	1,19,10,000	1,52,85,000
Assets		
Land	33,00,000	44,00,000
Plant and Machinery	50,60,000	69,30,000
Inventories	19,80,000	22,00,000
Sundry Debtors	11,00,000	17,05,000
Cash and Bank Balances	4,70,000	50,000
	1,19,10,000	1,52,85,000

Additional Information:

- The machine which was purchased earlier for Rs. 6,00,000 was sold during the financial year 20X8-20X9 for Rs. 40,000. The book value of the machine was Rs. 60,000. A new machinery was purchased during the financial year.
- The company had issued new shares to the extent of Rs.22,00,000.

You are required to prepare:

- Statement showing changes in the Working Capital;
- Statement of Sources and Application of funds.

(PM)

(Ans.: Increase in working capital Rs.8,25,000, Applications of Fund – Rs. 49,40,000)

Problem 7: The comparative balance sheet of Bharat Ltd. is:

Liabilities	31.3.98	31.3.97	Assets	31.3.98	31.3.97
Share Capital	4,00,000	3,60,000	Fixed Assets	5,20,000	4,80,000
General Reserve	60,000	1,10,000	Less: Dep.	1,40,000	1,08,000
Profit & Loss A/c	53,450	20,450		3,80,000	3,72,000
Sundry creditors	1,75,350	1,83,650	Investments	50,000	1,00,000
Proposed Dividend	15,000	28,800	Debtors	1,67,800	1,18,300

Provision for Tax	32,000	-	Stock Bank Balance Preliminary Exp.	90,500	55,600
	7,35,800	7,02,900		47,500	49,800
				-	7,200
				7,35,800	7,02,900

Additional Information:

- The net profit for the year 1997-98 (after providing depreciation Rs.40,000, writing off preliminary expenses of Rs.7,200 and making provision for tax Rs.32,000) amounted to Rs.58,000.
- The company sold during the year, an old machinery costing Rs.9,000 for Rs.3,000. The accumulated depreciation on the said machinery was Rs.8,000.
- A portion of company's investments became worthless and was written off to General Reserve during the year. The cost of such investment was Rs.50,000.
- During the year, The company paid an interim dividend of Rs.10,000 and the directors have recommended final dividend of Rs.15,000 for the current year.

Prepare the Schedule of Change in Working Capital and the Funds Flow Statements.

(Ans.: Increase in working capital Rs.90,400, Funds from operations – Rs. 1,35,200)

Problem 8: ABC Ltd. has supplied the following information at the beginning and at the end of the year 2015 -16:

	1.4.2015 (Rs.)	31.3.2016 (Rs.)
Plant less depreciation	85,000	2,13,000
Investment (long term)	1,98,000	4,35,000
Debentures	3,75,000	1,05,000
Equity share capital	6,00,000	6,00,000
Reserves & Surplus	3,57,000	6,15,000

Although ABC Ltd. could not provide complete Balance Sheet and Profit & Loss Account, it supplied the following further information:

- An interim dividend of Rs. 54,000 has been paid during the year 2015-16.
- The net income includes Rs. 20,000 on account of profit on sale of plant. There has been an increase of Rs. 1,40,000 in the gross value of plant after a plant having gross value of Rs. 43,500, whose written down value was Rs. 28,500, was disposed off during the year. From the information given above, you are required to prepare a Funds Flow Statement

(RTP MAY 16) (Ans.: Funds from operations – Rs. 3,29,000; application of funds: 7,44,500)

Problem 9: From the following particulars, prepare Trading and Profit & Loss A/c, statement showing sources and applications of funds and statement of changes in working capital.

Balance sheet of Sridhar as on 1.1.96

Liabilities	Rs.	Assets	Rs.
Capital	2,00,000	Machinery	70,000
Creditors for Goods	35,000	Furniture	15,000
Expenses outstanding	5,000	Stock	35,000
		Debtors	1,00,000
		Cash	5,000
		Bank	15,000

Other Particulars:

Debtors Velocity, 2 months;

Creditors Velocity, 1 month

Stock level, uniform

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$$\text{Gross Profit} = 33\frac{1}{3}\%$$

Sales are 20% in cash and 80% are on credit.

Sales for the current year are 20% more than the previous year.

Receipt from debtors; Cash Rs.50,000; Balance by cheques.

Payments out of bank:

Creditors Rs.? : Machinery Rs.40,000; Furniture Rs.5,000; Investments Rs.40,000; Drawings Rs.20,000; Business Expenses Rs.60,000.

Cash Payments: Business Expenditure Rs.90,000; Cash deposited in to bank Rs.1,00,000; Depreciation 10% Show your workings.

(Ans.: Profit Rs. 1,42,000, Increase in working capital Rs.50,000, Funds from operations – Rs. 1,55,000)

Problem 10: (comprehensive of all adjustments).

From the following summarized Balance Sheet of a Company, as at 31st March, you are required to prepare funds flow statement. All workings should form part of your answer.

Liabilities	1995	1996	Assets	1995	1996
Equity share Capital 10% Redeemable	75,000	1,20,000	Fixed Assets at cost Less: Depreciation	2,40,070	2,53,730
Preference Share Capital	1,00,000	80,000		90,020	98,480
Reserve for Replacement of Machinery	15,000	10,000		1,50,050	1,55,250
Long Term Loans	---	40,000			
Bank Overdraft	22,000	17,550	Investments	61,000	76,000
Trade Creditors	84,450	75,550	Stocks	98,000	1,04,000
Proposed Dividends on:			Trade Debtors	88,000	85,000
Equity Shares	12,000	24,000	Bank	11,750	32,000
Profit and Loss Account	1,00,350	1,02,700			
	4,08,800	4,52,250		4,08,800	4,25,250

Additional Information:

- During the year, additional equity capital was issued to the extent of Rs.25,000 by way of bonus shares fully paid up.
- Final dividend on preference shares and an interim dividend of Rs.4,000 on equity shares were paid on 31st March, 1996.
- Proposed dividends for the year ended 31st March, 1995 were paid in October, 1995.
- Movement in Reserve for replacement of machinery account represents transfer to Profits and Loss Account.
- During the year, one item of plant was up valued by Rs.3,000 and credit of this was taken in the Profit and Loss Account.
- Rs.1,700 being expenditure on fixed assets of the year ended 31st March, 1995 wrongly debited to Sundry Debtors then, was corrected in the next year.
- Fixed assets costing Rs.6,000 (accumulated depreciation Rs.4,800) were sold for Rs.250. Loss arising there from was written off.
- Preference share redeemed in the year (June, 1995) were out of a fresh issue of equity shares. Premium paid on redemption was 10%. (M - 09)

(Ans.: Increase in working capital Rs.55,850, Funds from operations – Rs.73,260 Sources and Applications:1,33,510)

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Problem 11: The following are the summarized Balance Sheet of Flexion Limited as on 31st March 2012 and 2013 :

Liabilities	31.3.12 Rs.	31.3.13 Rs.	Assets	31.3.12 Rs	31.3.13 Rs
Share Capital	8,00,000	8,00,000	Goodwill	15,000	15,000
General Reserve	1,40,000	1,80,000	Building	4,00,000	3,60,000
Profit & Loss A/c.	1,60,000	2,70,000	Plant	3,70,000	5,20,000
Sundry Creditors	1,71,000	1,67,000	Investment (Long-term)	1,20,000	1,50,000
Bills Payable	20,000	30,000	Stock	3,00,000	2,30,000
Provision for Tax	1,60,000	1,80,000	Debtors	1,80,000	2,00,000
			Cash & Bank	66,000	1,52,000
	14,51,000	16,27,000		14,51,000	16,27,000

Additional Information:

1. Depreciation charged during the year 2012-13:
On Plant - Rs. 40,000
On Building - Rs. 40,000
2. Provision for tax of Rs. 1,90,000 was made during the year 2012-13.
3. Interim dividend paid during the year 2012-13:
Interim Dividend - Rs. 80,000
Corporate Dividend Tax - Rs. 13,596

Prepare:

- (i) Statement of changes in working capital
- (ii) Funds flow statement for the year ended 31st March, 2013.

(SAME N13, 8M) (PM)

(Ans.: Increase in working capital Rs.30,000, Funds from operations – Rs.5,13,596)

ABC ANALYSIS

	A category	B category	C category
Class room problems	1,2,3,4,6,8,	5,7	9
Assignment problems	7,10,11	8	1,2,3,4,5,6,9

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To **MASTER MINDS**, Guntur

Verified by: Phaneendra Sir, M.P. Raju Sir,

Venkanna Sir

Executed by: Dhanalakshmi

THE END