

8. FUNDS FLOW STATEMENTS

PROBLEM NO: 1Schedule showing change in w/c

Particulars	1-1-98	31-12-98	Effect of W/C	
			Increase	Decrease
A. Current Assets:				
Stock	30,000	28,000	-	2,000
Cash	29,000	9,000	-	20,000
Trads Debts	19,000	20,000	1,000	-
Prepaid exp	70	300	230	-
Bills receivables	3,000	2,000	-	1,000
Total C.A (A)	81,070	59,300		
Less:				
B. Current Liabilities:				
Trade Creditors	8,000	5,320	2,680	-
Accrued exp	350	160	190	-
B/P	1,500	900	600	-
Liability for Tax	3,220	5,170	-	1,950
Total C.L (B)	13,070	11,550		
Net working capital	68,000	47,750		
Decreasing W/C		20,250	20,250	
	68,000	68,000	24,950	24,950

PROBLEM NO: 2Calculation of Funds from operations

Particulars		Amount (Rs.)
Current year Profit		70,000
Add: Non Fund & Non operating Items have been already or to P/c A/c		
Loss on sale of equipment	9,000	
Premium on reduction of debentures	1,500	
Discount on Issues Debentures	2,000	
Depreciation on Machine	20,000	
Depletion of natural resources	10,000	
Interim dividend	25,000	
Provision for Tax	22,000	
Transfer to General reserve	5,000	
Write off preliminary Expenses	1,000	
Loss on sale of investment	1,000	96,500
		1,66,500
Less: Non Fund & Non operating Items have been already Cr. To P/C A/c:		
Gain from sale of Assets	40,000	
Dividend Income	4,000	
Profit on revaluation	2,500	(46,500)
Funds From operating		1,20,000

PROBLEM NO: 3Calculation of Funds from operations

Particulars		Amount (Rs.)
Profit during the year		20,000
Add: Non Fund & Non operating items have been already Dr. to P/C A/c		
Depreciation	1,00,000	

Write off Preliminary Expenses	20,000	
Proposed Dividend	80,000	
Provision for Income Tax	1,00,000	3,00,000
		3,20,000
Less: Non Fund & Non operating Items have been already Cr – to P/c A/c	-	-
Funds from operation		<u>3,20,000</u>

Funds Flow statement

Particulars	Amount (Rs.)
Sources of Funds	
Issue of	8,00,000
Issue of Debentures	3,00,000
Funds from operations	<u>3,20,000</u>
Total (A)	14,20,000
Application of Funds	
Purchasing of Fixed Assets	12,00,000
Preliminary exp. Fund	20,000
Total (B)	12,20,000
Increase in W/C (A – B)	2,00,000

PROBLEM NO: 4**Machinery A/c**

Dr.

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To balance b/d	1,00,000	By Bank A/c	2000
To P & L A/c	1000	By Provision for Depreciation	4000
To Bank A/c (Purchases)	55,000	By Balance C/d	1,50,000
	<u>1,56,000</u>		<u>1,56,000</u>

Provision for Depreciation A/c

Dr.

Cr.

To machinery A/c	4000	By Balance b/d	30,000
		By P & L A/c	14,000
To balance	<u>40,000</u>		
	<u>44,000</u>		<u>44,000</u>

Working Note:

Original cost	– 5,000
(-) Depreciation	– <u>4,000</u>
Cost of the machine	1,000
Sale	<u>(2,000)</u>
Profit	<u>1,000</u>

PROBLEM NO: 5**Statement of changes in working Capital (All figures in Rupees)**

Particulars	2013	2014	Increase in Working Capital	Decrease in Working Capital
Current Assets:				
Closing Stock	4,00,000	4,50,000	50,000	
Sundry Debtors	2,10,000	1,80,000		30,000
Cash in hand	10,000	2,000		8,000
Bank Balance	<u>20,000</u>	<u>8,000</u>		12,000
Total (A)	6,40,000	6,40,000		

Current Liabilities:				
Sundry Creditors	3,00,000	2,00,000	1,00,000	
Provision for taxes	10,000	15,000		5,000
Proposed Dividend	50,000	60,000		10,000
Total (B)	3,60,000	2,75,000		
Working Capital (A –B)	2,80,000	3,65,000		
Increase in Working Capital	85,000			85,000
	3,65,000	3,65,000	1,50,000	1,50,000

Now, before preparing the funds from operation statement and the funds flow statement, we have to calculate the amount of depreciation charged for the year and also the amount of profit or loss on account of sale of machinery. For this, we need to prepare a machinery account in the following manner:

Machinery A/c

Particulars	Amount (Rs.)
Balance of Fixed Assets as at 2013	8,00,000
Less: Cost of Machinery Sold	1,00,000
Balance in Fixed Assets group after sale	7,00,000
Amount of Fixed assets as at 2014	11,00,000
Difference being additional purchase in year	4,00,000

The written down value of the machinery is the cost minus the accumulated depreciation up to the point of sale. The sale price of the machinery, minus the written down value of the machinery sold, was Rs. 60,000 - [Rs. 100,000-Rs. 30,000]. Loss on sale of machinery comes to Rs. 10,000.

Based upon the same logic, we have to calculate the amount of depreciation for the year.

Depreciation A/c

Particulars	Amount (Rs.)
Opening Balance of Accumulated Depreciation	1,60,000
Less: Accumulated depreciation of Machinery Sold	30,000
Balance in Accumulated depreciation Account	1,30,000
Closing balance as on 2014	2,70,000
Difference Being depreciation for the year	1,40,000

Funds From Operations for the year 2014

Particulars	Amount (Rs.)
Profit for the year (increase in General Reserve)	50,000
Add: Depreciation	1,40,000
Non – operational activity (loss of Machine)	10,000
Funds From Operations	2,00,000

Funds flow statement for the year 2014

Particulars	Amount (Rs.)
Sources	
Funds from operation	2,00,000
Proceeds from sale of Machinery	60,000
Proceeds from issue of shares	7,35,000
Total (A)	9,95,000
Applications	
Purchase of Machinery	4,00,000
Purchase of Investment	5,10,000
Increase in Working Capital	85,000
Total (B)	9,95,000

PROBLEM NO:6**Schedule Showing changes in Working Capital.**

Particulars	31 st march		Effect of Working Capital	
			Increase	Decrease
A. Current Assets:				
Inventories	1,98,000	22,00,000	2,20,000	-
Sundry debtors	11,00,000	17,05,000	6,05,000	
Cash and bank	4,70,000	50,000	-	4,20,000
Total (A)	35,50,000	39,55,000		
Less:				
B. Current Liabilities				
Sundry debtors	13,20,000	14,85,000	-	1,65,000
Provision for taxation	4,00,000	5,00,000		1,50,000
Total (B)	17,20,000	20,35,000		
Working capital (A-B)	1,83,000	19,20,000		
Increase in working capital	90,000			90,000
Total	19,20,000	19,20,000	8,25,000	8,25,000

Fund flow statement for the year ended 31st march 2009

Particulars	Amount (Rs.)
Sources of funds	
Funds from operations	27,00,000
Proceeds from issue of shares	22,00,000
Sale of machinery	4,00,000
Total	49,40,000
Application of funds	
Payment of dividend	4,00,000
Repayment of bank loan	8,80,000
Purchase of land	11,00,000
Purchase of machinery	24,70,000
Total	48,50,000
Net increase in working capital (A-B)	90,000

Calculation of funds from operations

Particulars	Amount (Rs.)
Reserves and surplus as on march 31 st 2009	38,50,000
Add:	
Provision for depreciation	9,80,000
Proposed dividend	6,00,000
Loss on sale machinery	20,000
	54,50,000
Less	
Profit and loss account on march 31 2013	27,50,000
Funds From Operations	27,00,000

Provision For Depreciation A/c

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Cr.

Particulars	Amount	Particulars	Amount
To plant and machinery	5,40,000	By Balance B/d	8,80,000
To Balance C/d	1,32,000	By profit & loss A/c	9,80,000
Total	18,60,000	Total	18,60,000

Plant and machinery A/c

Dr.

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Particulars	Amount	Particulars	Amount
To balance b/d	50,60,000	By provision for dep. A/c	5,40,000
To bank (purchases)	24,70,000	By cash	40,000
		By profit and loss A/c (loss on sale of asset)	20,000
		By balance c/d	69,30,000
Total	75,30,000	Total	75,30,000

PROBLEM NO: 7Schedule Showing changes in Working Capital.

Particulars	31.3.97	31.3.98	Effect of Working Capital	
			Increase	Decrease
A. Current Assets:				
Debtors	1,18,300	1,67,800	49,500	-
Stock	55,600	90,500	34,900	-
Bank Balance	49,800	47,500	-	2,300
Total Current Assets (A)	2,23,700	3,05,800		
Less:				
B. Current Liabilities				
Secured Creditors	1,83,650	1,75,350	8,300	
Total Current Assets (B)	1,83,650	1,75,350		
Net Working Capital (A-B)	40,050	30,450		
Increase In Working Capital	90,400			90,400
	1,30,450	1,30,450	92,700	92,700

Fixed Assets A/c (Cost)

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Particulars	Amount	Particulars	Amount
To Balance B/d	4,80,000	By Asset Disposal	9,000
To Bank (purchases)	49,000	By Balance C/d	5,20,000
	5,29,000		5,29,000

Provision for Depreciation A/c

Dr.

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Particulars	Amount	Particulars	Amount
To Asset Disposal	8,000	By Balance B/d	1,08,000
To Balance C/d	1,40,000	By profit & loss A/c	40,000
	1,48,000		1,48,000

Asset Disposal A/c

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Particulars	Amount	Particulars	Amount
To Fixed Asset A/c	9,000	By Bank A/c	3,000
To P & L A/c	2,000	By provision for depreciation	8,000
	11,000		11,000

Provision For Income Tax A/c

Dr.

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Particulars	Amount	Particulars	Amount
		By Balance B/d	Nil
To balance C/d	32,000	By profit & loss A/c	32,000
	32,000		32,000

Investments A/c

Dr.

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Particulars	Amount	Particulars	Amount
To balance b/d	1,00,000	By General Reserve	50,000
		By balance C/d	50,000
	<u>1,00,000</u>		<u>1,00,000</u>

General reserve A/c

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Particulars	Amount	Particulars	Amount
To investment A/c	50,000	By balance B/d	1,10,000
To balance c/d	60,000		
	<u>1,10,000</u>		<u>1,10,000</u>

Calculation of funds from operations

Particulars	Amount (Rs.)
Current Year profit	58,000
Add: Non fund & non operating items have been already debited to P & L A/c	
Provision for depreciation on Fixed Assets	40,000
Write off preliminary Expenses	7,200
Amount provided for provision for Income tax	32,000
	1,37,200
Less: Non fund & non operating items have been already Credited to P & L A/c	
Profit on sale of Fixed Assets	(2,000)
Funds From Operations	<u>1,35,200</u>

Funds Flow Statement

Particulars	Amount (Rs.)
A. sources of Funds	
Issue of shares	40,000
Sales of Fixed Assets	3,000
Funds From Operations	1,35,200
Total (A)	1,78,200
B. Application of Funds	
Purchases of Fixed Assets	49,000
Interim dividend Paid	10,000
Last year Proposed dividend Paid	28,800
Total (B)	(87,800)
Increase in Working Capital (A – B)	90,400

PROBLEM NO: 8Calculation of funds from operations

Particulars	Amount (Rs.)
Closing value of reserves and surplus	6,15,000
Less: opening value of reserves and surplus	(3,57,000)
Profit after depreciation	2,58,000
Add :depreciation (refer working note)	37,000
Profit before depreciation	2,95,000
Less :profit on sale of plant	(20,000)
	2,75,000
Add: interim dividend	54,000
Funds from operations	<u>3,29,000</u>

Fund flow statement for the year ended 31st march 2016

Particulars	Amount (Rs.)
Sources of funds	
Funds from operations	3,29,000
Decrease in working capital (balance figure)	3,67,000
Sale of plant	48,500
Total	7,44,500
Application of funds	
Long term investment (435000-198000)	2,37,000
Purchase of plant (refer working note:	1,83,500
Repayment of debenture (375000-105000)	2,70,000
Payment of interim dividend	54,000
Total	7,44,500

WORKING NOTE:**Plant A/c**

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Particulars	Amount	Particulars	Amount
To balance b/d	95,000	By bank (sale)	48,500
To p&l a/c(profit on sale)	20,000	By provision for depreciation(b/f)	37,000
To bank a/c(new purchase) (140000-43500)	1,83,500	By balance c/d	2,13,000
Total	2,98,500	Total	2,98,500

PROBLEM NO:9**W. N 1:** Calculation of credit Sales, sales and cost of goods sold for previous year.**(i) Credit Sales**

Debtors collection period (given) = 2 months

$$\text{Debtors collection period} = \frac{12 \text{ months}}{\text{Debtors turnover Ratio}} = 2 \text{ Months}$$

$$\text{Debtors turnover ratio} = \frac{12 \text{ months}}{2 \text{ Months}} = 6 \text{ times}$$

$$\begin{aligned} \text{Debtors turnover ratio} &= \frac{\text{Credit sales}}{\text{Clg. Debtors}} = 6 \\ &= \frac{\text{Credit sales}}{100000 \text{ (given)}} = 6 \end{aligned}$$

$$\therefore \text{Credit Sales} = 1,00,000 \times 6 = 6,00,000$$

$$\text{(ii) Sales} = 6,00,000 \times \frac{100}{80} = 7,50,000$$

$$\begin{aligned} \text{(iii) Cash Sales} &= \text{Sales} - \text{Credit Sales} \\ &= 7,50,000 - 6,00,000 \\ &= 1,50,000 \end{aligned}$$

(iv) Cost of goods sold

$$\text{Sales} \quad \quad \quad 7,50,000$$

$$(-) \text{ Gross Profit } \left(33 \frac{1}{3} \% \right)$$

$$(7,50,000 \times \frac{1}{3}) \quad \underline{2,50,000}$$

$$\text{COGS} \quad \underline{5,00,000}$$

W. N 2: Calculation of credit Purchases

Creditors Payment period (given) = 1 month

$$\text{Creditors payment period} = \frac{12 \text{ months}}{\text{Creditors turnover Ratio}} = 1 \text{ Month}$$

$$\text{Creditors turnover ratio} = \frac{12 \text{ months}}{1 \text{ Month}} = 12 \text{ times}$$

$$\text{Creditors turnover ratio} = \frac{\text{Credit Purchases}}{\text{Clg. Creditors}} = 12 \text{ times}$$

$$= \frac{\text{Credit Purchases}}{35,000 \text{ (given)}} = 12 \text{ times}$$

$$\therefore \text{Credit Purchases} = 35,000 \times 12 = 4,20,000$$

W.N.3: Calculation of sales, cash sales, credit sales and COGs for current year

$$\text{i) Sales} = 7,50,000 \times 120\% \text{ (given)} = 9,00,000$$

$$\text{ii) Credit Sales} = 9,00,000 \times 80\% = 7,20,000$$

$$\text{iii) Cash Sales} = (\text{Sales} - \text{Credit Sales}) \text{ (i.e., i) - ii) } = 1,80,000$$

W. N.4: Calculation of Debtors for current year.

$$\text{Debtors collection period (given)} = 2 \text{ months}$$

$$\text{Debtors Turnover Ratio (WN 1)} = 6 \text{ times}$$

$$\text{Debtors collection period (given)} = 2 \text{ months}$$

$$\text{Debtors turnover ratio} = \frac{\text{Credit sales}}{\text{Avg. Debtors}} = 6 \text{ times}$$

$$= \frac{7,20,000}{\text{Avg. Debtors}} = 6 \text{ times}$$

$$\therefore \text{Avg. Debtors} = \frac{7,20,000}{6} = 1,20,000$$

$$\text{Avg. Debtors} = \frac{\text{Opening Debtors} + \text{Clg. Debtors}}{2} = 1,20,000$$

$$= 1,00,000 + \text{Clg. Debtors} = 2,40,000$$

$$\therefore \text{Clg. Debtors} = 1,40,000$$

W.N.5: Calculation of cost of goods sold, and purchase

$$\text{Sales} \quad 9,00,000$$

$$(-) \text{ (Gross Profit } (9,00,000 \times \frac{1}{3}) \text{) } \quad \underline{3,00,000}$$

$$\text{COGS} = \quad \underline{6,00,000}$$

$$\text{Purchases} = \text{COGS} + \text{Clg. Stock} - \text{O.P Stock}$$

$$= 6,00,000 + 35,000 - 35,000$$

$$= 6,00,000$$

W.N.6: Calculation of Closing Creditors for current year

Creditors turnover Ratio (WN2) = 12 times

Creditors turnover ratio = $\frac{\text{Credit Purchases}}{\text{Avg. Creditors}} = 12 \text{ times}$

$\therefore \text{Avg. Creditors} = \frac{6,00,000}{6} = 1,20,000$

Avg. Debtors = $\frac{\text{Opening creditors} + \text{Clg. creditors}}{2} = 50,000$

= 35,000 + Clg. Debtors = 1,00,000

$\therefore \text{Clg. Debtors} = 65,000$

W.N.7: Calculation of receipt from debtors through cheque

Debtors A/c

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To bal b/d	1,00,000	By Cash	50,000
To Sales (credit)	7,20,000	By Bank (bal.fig)	6,30,000
		By bal c/d	1,40,000
	8,20,000		8,20,000

W.N.8: Calculation of closing cash balance

Cash A/c

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To O.P bal b/d	5,000	By business exp.	90,000
To cash Sales	1,80,000	By bank	1,00,000
To Cash Collected from debtors	50,000	By bal c/d	45,000
	2,35,000		2,35,000

W.N.9: Calculation of closing cash balance

Bank A/c

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To O.P bal b/d	15,000	By Creditors (WN 10)	5,70,000
To Cash	1,00,000	By Machinery	40,000
To Debtors	6,30,000	By Furniture	5,000
		By Investment	40,000
		By drawings	20,000
		By Business Exp.	60,000
		By bal c/d	10,000
	7,45,000		7,45,000

W.N.10: Calculation of Payment made to creditors through bank

Creditors A/c

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To bank (b/f)	5,70,000	By O.p bal b/d	35,000
To bal c/d	65,000	By Purchases	6,00,000
	6,35,000		6,35,000

W.N.11: Calculation of Closing Machinery**Machinery A/c**

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To O.P bal b/d	70,000	By Dep (1,10,000 x 10%)	11,000
To Bank	40,000	By bal b/d	99,000
	1,10,000		1,10,000

W.N.12: Calculation of Closing Furniture**Furniture A/c**

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To O.P bal b/d	15,000	By Dep (20,000 x 10%)	2,000
To Bank	5,000	By bal b/d	18,000
	20,000		20,000

I. Trading and Profit & Loss A/c for the current year

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To Cogs	6,00,000	By sales	9,00,000
To Gross Profit c/d	3,00,000		
	9,00,000		9,00,000
To Depreciation		By Gross Profit b/d	3,00,000
- on machinery	11,000		
- on furniture	2,000		
To business expenses (1,50,000 – 5,000)	1,45,000		
To Net Profit c/d	1,55,000		
	3,00,000		3,00,000

II. Statement showing Changes in working Capital

Particulars	1.1.96	31.12.96	Increase	Decrease
Stock	35,000	35,000	-	-
Debtors	1,00,000	1,40,000	40,000	-
Cash	5,000	45,000	40,000	-
Bank	15,000	10,000	-	50,000
A	1,55,000	2,30,000		
Creditors	35,000	65,000	-	30,000
Expenses outstanding	5,000	-	5,000	-
B	40,000	65,000		
C Net working Capital (A - B)	1,15,000	1,65,000		
Increase in W. Capital	50,000	-		50,000
	1,65,000	1,65,000	85,000	85,000

Funds flow operation

PAT 1,42,000

Add: Depreciation

On Machinery 11,000

On Furniture 2,0001,55,000

III. Funds flow statement

Particulars	Source	Particulars	Application
Funds from operation	1,55,000	Increase in working capital	50,000
		Purchase of Machinery	40,000
		Purchase of Furniture	5,000
		Investment	40,000
		Drawings	20,000
	1,55,000		1,55,000

Note:

1. There is no increase in stock because enterprise is following same level of stock.
2. Unless otherwise stated in the problem all purchases are credit purchases.
3. Expenses outstanding opening of Rs.5,000 can be paid in the current year.

PROBLEM NO: 10**Schedule of changes in Working Capital**

Particulars	31 st March		Working Capital	
	1995 (Rs.)	1996 (Rs.)	Increase (Rs.)	Decrease (Rs.)
(A).Current Assets				
Stock	98,000	1,04,000	6000	-
Debtors	86,300	85,000	-	1300
Cash & Bank	11,750	32,500	20250	-
Total current Assets (A)	1,96,050	2,21,500		
Less:				
(B). Current liabilities:				
Bank O.D	22,000	-	22,000	-
Trade Creditors	84,450	75,550	8,900	-
Total Current liabilities (B)	1,06,450	75,550		
Net working Capital (A – B)	89,600	145,450	-	-
Increase in Working Capital	55,850	-	-	55,850
	1,45,450	1,45,450	57,150	57,150

Calculation of funds from operations

Particulars	Amount (Rs.)	Amount (Rs.)
Closing balance of P & L A/c		1,02,700
Less: opening balance of P&L A/c		98,650
Current year profit		4,050
Add: non fund & non operating items have been already debited to P&L A/c		
a) Provision for depreciation on fixed assts	13,260	
b) Loss on sale of fixed assets	950	
c) Interim dividend	4,000	
d) Dividend on preference shares	8,000	
e) Proposed dividend	24,000	
f) Premium on redemption of preference shares	2,000	
g) Amount provided for fully paid bonus shares	25,000	77,210
		81,260
Less: non fund & non operating items have been already Credited to P&L A/c		
Revaluation profit on plant	3,000	
Reserves for replacement of machine	5,000	(8,000)
Funds from Operations		73,260

Funds flow statement

Particulars	Amount (Rs.)
A) Sources of funds	
Issue of equity shares	20000
Sale of fixed assets	250
Funds from operations	73260
Raising of long term loan	40000
Total (A)	133510
Less:	
B) Application of funds	
Redemption of preference share capital	22000
Last year proposed dividend paid	12000
Interim dividend	4000
Preference dividend paid	8000
Purchase of fixed assets	16660
Purchase of investments	15000
Total(B)	77660
Increase in working capital	55850

Fixed assets A/c

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Particulars	Amount	Particulars	Amount
To balance b/d	2,47,070	By Asset Disposal A/c	6,000
To P&LA/c(revaluation profit)	3,000	By balance c/d.	2,53,730
To bank(purchase)	16,660		
Total	2,59,730	Total	2,59,730

Provision for depreciation A/c

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Particulars	Amount	Particulars	Amount
To asset disposal	4,800	By balance b/d	90,020
To balance c/d	98,480	By p&l a/c(depreciation of the year)	13,260
Total	1,03,280	Total	1,03,280

Asset disposal A/c

Dr.

Cr.

Particulars	Amount	Particulars	Amount
To fixed assets	6,000	By provision for depreciation	4,800
		By bank	250
		By P & L A/c	950
Total	6,000	Total	6,000

Proposed dividend A/c

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Particulars	Amount	Particulars	Amount
To bank a/c	12,000	By balance b/d	12,000
To balance c/d	24,000	By P&L appropriation a/c	24,000
Total	36,000	Total	36,000

PROBLEM NO: 11**Schedule of changes in Working Capital**

Particulars	31 st March		Working Capital	
	2012 (Rs.)	2013 (Rs.)	Increase (Rs.)	Decrease (Rs.)
(A).Current Assets				
Stock	3,00,000	2,30,000	-	70,000
Debtors	1,80,000	2,00,000	20,000	-
Cash & Bank	66,000	1,52,000	86,000	-
Total (a)	5,46,000	5,82,000		
(B).Current liabilities				
Sundry creditors	1,71,000	1,67,000	4,000	
Bills payable	20,000	30,000	-	10,000
Total (B)	1,91,000	1,97,000		
Working capital (A - B)	3,55,000	3,85,000	1,10,000	80,000
Increase in working capital	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Total	<u>3,85,000</u>	<u>3,85,000</u>	<u>1,10,000</u>	<u>1,10,000</u>

Fund flow statement on 31st march 2013

Sources of funds	Amount	Application of funds	Amount
Funds from operations	5,13,596	Increase in working capital	30,000
		Interim dividend	80,000
		Purchase of investment	30,000
		Corporate dividend tax	13,596
		Purchase of plant	1,90,000
		Payment of income tax	1,70,000
TOTAL	<u>5,13,596</u>	TOTAL	<u>5,13,596</u>

WORKING NOTES:**Adjusted Profit & Loss A/c**

Particulars	Amount	Particulars	Amount
To general reserve	40,000	By net profit for 2012	1,60,000
To depreciation	40,000		
To building	40,000	By funds from operations	5,13,596
To goodwill	-		
To interim dividend	80,000		
To corporate dividend tax	13,596		
To provision for tax	1,90,000		
To net profit for 2013	<u>2,70,000</u>		
Total	<u>6,73,596</u>	Total	<u>6,73,596</u>

Dr.

Provision for tax A/c

Cr.

Particulars	Amount	Particulars	Amount
To bank a/c (tax paid)	1,70,000	By balance b/d	1,60,000
To balance b/d	1,80,000	By p& a/c	1,90,000
Total	<u>3,50,000</u>	Total	<u>3,50,000</u>

Dr.

Plant & Machinery A/c

Cr.

Particulars	Amount	Particulars	Amount
To balance b/d	3,70,000	By Depreciation	40,000
To bank	1,90,000	By balance c/d	5,20,000
Total	<u>5,60,000</u>	Total	<u>5,60,000</u>

NOTE: Schedule of changes in the working capital may be computed alternatively by taking provision for tax as current liability and working capital out the problem accordingly.

THE END