

## Fund Flow Statement

It is a statement that shows the 'inflows' and 'outflows' of funds during a period. The inflows indicate from which source how much fund has come into the business. The outflows show for what purpose how much fund has been expended or applied. The period normally indicates the span of time between two consecutive Balance Sheet dates. Fund normally means Working Capital. So, Fund Flow statement is a presentation that explains the change of working capital position during a period.

## Technique or Steps to be followed for preparing the Fund Flow Statement

### ➤ Step. 1. Preparation of a Statement – showing changes in Working Capital

Two consecutive Balance Sheets are given. These are the opening and closing Balance Sheets of the period under review. The current assets and current liabilities are to be recognized. These are to be compared as illustrated below:

**Statement Showing Changes in Working Capital**

Particulars	Previous Year [Opening] Rs.	Current Year [Closing] Rs.	Effect on Working Capital	
			Increase Rs.	Decrease Rs.
<b>A. Current Assets</b>				
Cash in Hand				
Cash at Bank				
Stock-in-Trade				
Sundry Debtors				
*Marketable Securities (Short-term investments)				
Bills Receivable				
Prepaid Expenses				
Accrued Incomes				
Advance Tax paid				
Loans & Advances				
<b>Total (A)</b>				
<b>B. Current Liabilities</b>				
Sundry Creditors				
Bills Payable				
Outstanding Expenses				
Income Received in advance				
Bank Overdraft				
*Provision for Taxation				
*Proposed Dividend				
*Unclaimed Dividend				
<b>Total (B)</b>				
Working Capital [A – B]				
Increase / Decrease in Working Capital				

\* These items may be separately considered. This is being discussed later. Trade Investments should be considered as non-current asset.

### ➤ Increase in Working Capital results from:

1. Any increase in Current Asset [Current year's figure more than Previous year's figure]
2. Any decrease in Current Liability [Current year's figure lower than Previous year's figure]

### ➤ Decrease in Working Capital results from:

1. Any decrease in Current Asset [Current year's figure lower than Previous year's figure]
2. Any increase in Current Liability [Current year's figure more than Previous year's figure]

- **Step. 2.** The non-current assets and non-current liabilities should be analysed individually to ascertain inflow or outflow of cash / fund. This may be done by opening individual accounts or by other calculations. [Please try to follow illustrations]
- **Step. 3.** The Fund Flow Statement is to be prepared. There is no specific format for it. It may be shown in “T”-Form or in a vertical form as shown below:

**“T”-Form****Funds Flow Statement for the year ended .....**

Sources	Amount Rs.	Applications	Amount Rs.
Issue of Share Capital		Redemption of Preference Share Capital	
Issue of Debentures		Redemption of Debentures	
Loans Raised		Buy back of Equity Shares	
Sale of Fixed Assets		Payment of Long-term Loans	
Sale of Investments (Trade)		Purchase of Fixed Assets	
Dividends Received on Investments		Purchase of Investments	
Any other Non-Trading Receipt		Payments of Dividend	
Net Decrease in Working Capital		Payment of Tax	
Profit / Funds from operations		Net Increase in Working Capital	
		Trading Loss or Loss of Funds from Operations	

**Vertical Form****Funds Flow Statement for the year ended .....**

Particulars	Amount Rs.
<b>Sources:</b>	
Issue of Share Capital	
Issue of Debentures	
Loans Raised	
Sale of Fixed Assets	
Sale of Investments (Trade)	
Dividends Received on Investments	
Any other Non-Trading Receipt	
Net Decrease in Working Capital	
Profit / Funds from operations	
<b>Applications:</b>	
Redemption of Preference Share Capital	
Redemption of Debentures	
Buy back of Equity Shares	
Payment of Long-term Loans	
Purchase of Fixed Assets	
Purchase of Investments	
Payments of Dividend	
Payment of Tax	
Net Increase in Working Capital	
Trading Loss or Loss of Funds from Operations	

**Please note that –**

1. There may either Profit from Operations or Loss from Operations.
2. If Proposed Dividend and Provision for Taxation are treated as non-current liabilities, these are separately accounted for. Payment of Dividend or Tax is shown here.  
If these are treated as current liabilities, these are shown in the Working Capital Statement [Step 1].

➤ **Some Typical Items**

1. **Provision for Taxation:** Tax Liability for a financial period is determined by a company on the basis of self-assessment. Such tax becomes a charge against its profits. A Provision for Tax is made by the company. It is shown in the Company's Balance Sheet. The entry passed is –

*Profit & Loss A/c .....Dr.*  
*To Provision for Taxation A/c*

For preparing the Funds Flow Statement either or the following treatments may be made–

- (a) Such Provision for taxation is treated as a current liability and considered in the Working Capital Statement.

In that case actual payment of tax is not shown in the Funds Flow Statement.

- (b) Provision for Taxation is considered as a non-current liability. It should not appear in the Working Capital Statement.

The accounting is to be considered as –

<i>Dr.</i>			<i>Cr.</i>		
<b>Provision for Taxation Account</b>					
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
During the period	To Bank A/c (Actual Tax Paid)	(a)	Opening date	By Balance b/f (Opening Provision)	
Cl. Date	To Balance c/f (Closing Provision)		Cl. Date	By Profit & Loss A/c (Balancing Figure)	(b)

So,

- (a) Actual payment of Tax is to be shown as an Application of Fund and  
(b) Provision made during the period will be shown on the debit side of Profit & Loss Account.

The Second method is better and logically acceptable.

**2. Proposed dividend:**

- (a) If it is treated as a current liability, it is to be shown only in the Working Capital Statement; or  
(b) If it is treated as a non-current liability, its accounting should be considered as –

<i>Dr.</i>			<i>Cr.</i>		
<b>Provision for Taxation Account</b>					
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
During the period	To Bank A/c (Last year's dividend paid this year)	(a)	Opening date	By Balance b/f (As per previous year's Balance Sheet)	
	To Unclaimed Dividend (Last year's dividend not paid this year)	(c)			
Cl. Date	To Balance c/f (As per Current Bal. Sheet)		Cl. Date	By Profit & Loss A/c	(b)



- 6. *Non-cash transactions:*** There may be some transactions not involving cash.  
For example, Asset purchased by issue of Shares. The simple Journal entry is –

Asset A/c .....Dr.  
To Share Capital A/c

Simply this transaction may be ignored

Otherwise:

- (a) Issue of Shares should be considered as a Source of Fund and
  - (b) Purchase of Asset should be considered as an Application of Fund.
-

**Problem.1:**

From the following summarised financial statements of Arthur Ltd. As on 31<sup>st</sup> December, 2010 and 31<sup>st</sup> December, 2011 respectively, prepare: **(i)** a statement of changes in working capital during the year 2011; and **(ii)** a statement showing the source and application of funds during the same period.

<i>Liabilities</i>	<i>31.12.10</i>	<i>31.12.11</i>	<i>Assets</i>	<i>31.12.10</i>	<i>31.12.11</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Equity share capital	5,00,000	6,00,000	Freehold land and buildings		
Securities premium	--	20,000	at cost	3,00,000	3,00,000
Revenue reserves	80,000	1,20,000	Plant and machinery at cost	6,00,000	6,80,000
Profit and loss account	1,20,000	1,60,000	Accumulated depreciation	(3,00,000)	(3,20,000)
10% debentures	2,00,000	1,00,000	Furniture at cost	40,000	50,000
Sundry Creditors	3,50,000	3,70,000	Accumulated depreciation	(15,000)	(16,000)
			Inventories	3,20,000	3,90,000
			Debtors	3,00,000	2,50,000
			Cash	5,000	36,000
	<u>12,50,000</u>	<u>13,70,000</u>		<u>12,50,000</u>	<u>13,70,000</u>

**Solution▶****(i)**

**Arthur Ltd.**  
**Statement of Changes in Working Capital**

	<i>31.12.10</i>	<i>31.12.11</i>	<i>Effect on Working Capital</i>	
			<i>Increase</i>	<i>Decrease</i>
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
<i>Current Assets:</i>				
Inventories	3,20,000	3,90,000	70,000	
Debtors	3,00,000	2,50,000		50,000
Cash	5,000	36,000	31,000	
	6,25,000	6,76,000		
<i>Current Liabilities:</i>				
Sundry Creditors	3,50,000	3,70,000		20,000
Working capital	2,75,000	3,06,000		
Increase in working capital	31,000			31,000
	3,06,000	3,06,000	1,01,000	1,01,000

**(ii)**

**Statement of Sources and Application of Funds**  
*for the year ended 31<sup>st</sup> December, 2011*

<i>Sources of Funds</i>		<i>Rs.</i>
Funds from operations (see Working)	1,01,000	
Issue of shares at premium: Rs. (6,20,000 – 5,00,000)	1,20,000	2,21,000
		<u>2,21,000</u>
<i>Application of Funds:</i>		
Repayment of debentures: Rs. (2,00,000 – 1,00,000)	1,00,000	
Purchase of plant and machinery: Rs. (6,80,000 – 6,00,000)	80,000	
Purchase of furniture: Rs. (50,000 – 40,000)	10,000	1,90,000
Net increase in working capital		<u>31,000</u>

**Working:***Adjusted Profit and Loss Account*

		Rs.			Rs.
To	Revenue reserve - transfer	40,000	By	Balance b/f	1,20,000
"	Depreciation: Rs. (20,000 + 1,000)	21,000	"	Net profit from trading	1,01,000
"	Balance c/f	<u>1,60,000</u>		(balancing figure)	
		<u>2,21,000</u>			<u>2,21,000</u>

**Problem.2:**

The balance sheets of National Plastics Ltd., as on 31.12.10 and 31.12.11 are given below:

<i>Liabilities</i>	<i>30.6.10</i>	<i>30.6.11</i>	<i>Assets</i>	<i>30.6.10</i>	<i>30.6.11</i>
	Rs.	Rs.		Rs.	Rs.
Share capital in shares of Re.1 each	6,00,000	7,00,000	Freehold property (at cost)	40,000	32,000
Securities premium	--	20,000	Plant and machinery	5,72,000	6,16,000
Profit on sale of freehold property	--	4,000	Preliminary expenses	3,200	1,600
Profit and loss account	64,000	1,21,800	Current assets	2,76,800	3,32,200
8% debentures	1,00,000	--			
Current liabilities	<u>1,28,000</u>	<u>1,36,000</u>			
	<u>8,92,000</u>	<u>9,81,800</u>		<u>8,92,000</u>	<u>9,81,800</u>

The entire share capital of the company was issued for cash. Depreciation on plant and machinery written off for the year 2010 amounted to Rs. 56,000. During the year, the company paid a dividend of Rs.30,000. Prepare for the year 2011: **(i)** a statement of changes in working capital; and **(ii)** a statement of sources and application of funds.

**Solution▶****(i)**

**National Plastics Ltd.**  
**Statement of Changes in Working Capital**

	<i>31.12.10</i>	<i>31.12.11</i>
	Rs.	Rs.
Current assets	2,76,800	3,32,200
Current liabilities	<u>1,28,000</u>	<u>1,36,000</u>
Working capital	1,48,800	1,96,200
Increase in working capital	<u>47,400</u>	<u>--</u>
	<u>1,96,200</u>	<u>1,96,200</u>

**(ii)**

**Statement of Sources and Application of Funds**  
*for the year ended 31.12.2011*

<i>Sources of Funds</i>	Rs.	
Funds from operations (see Working 3)	1,45,400	
Issue of shares at a premium: Rs. (1,00,000 + 20,000)	1,20,000	
Sale of freehold property (see Working 1)	<u>12,000</u>	2,77,400
<i>Application of Funds:</i>		
Purchase of plant and machinery (see Working 2)	1,00,000	
Redemption of debentures	1,00,000	
Payment of dividend	<u>30,000</u>	2,30,000
Net increase in working capital		<u>47,400</u>

**Workings:**

(1) Freehold Property Account					
		Rs.			Rs.
To	Balance b/f	40,000	By	Bank – sale ( <i>balancing figure</i> )	12,000
"	Profit on sale	4,000	"	Balance c/f	32,000
		44,000			44,000

(2) Plant and Machinery Account					
		Rs.			Rs.
To	Balance b/f	5,72,000	By	Depreciation	56,000
"	Bank purchase ( <i>balancing figure</i> )	1,00,000	"	Balance c/f	6,16,000
		6,72,000			6,72,000

(3) Adjusted Profit and Loss Account					
		Rs.			Rs.
To	Preliminary expenses	1,600	By	Balance b/f	64,000
"	Depreciation	56,000	"	Net profit from trading	1,45,400
"	Dividend	30,000			
"	Balance c/f	1,21,800			
		2,09,400			2,09,400

**Problem.3:**

From the following balance sheets, prepare a schedule showing changes in working capital and a funds flow statement:

**Balance Sheets**

Liabilities	2011		2010		Assets	2011		2010	
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
Share capital	4,50,000	4,00,000	Fixed Assets	7,20,000	6,10,000				
Debentures	3,50,000	2,40,000	Investments	1,30,000	50,000				
Current liabilities	1,50,000	1,20,000	Current assets	3,75,000	2,40,000				
General reserve	2,10,000	2,00,000	Discount on shares	5,000	10,000				
Profit and loss account	70,000	--	Profit and loss account	--	50,000				
	12,30,000	9,60,000		12,30,000	9,60,000				

**Additional information:**

- (i) Depreciation charged on fixed assets was Rs. 60,000.  
(ii) A machine of the book value of Rs. 40,000 was sold for Rs. 20,000.

**Solution** ▶

Schedule of changes in working capital	31.12.10	31.12.11
	Rs.	Rs.
Current assets	2,40,000	3,75,000
Current liabilities	1,20,000	1,50,000
Working capital	1,20,000	2,25,000
Increase in working capital	1,05,000	--
	2,25,000	2,25,000



**Funds Flow Statement for the year ended 31<sup>st</sup> December, 2011**

<i>Sources of funds:</i>		Rs.
Funds from operations	2,15,000	
Sale of fixed assets	20,000	
Issue of shares	50,000	
Issue of debentures	<u>1,10,000</u>	3,95,000
<i>Application of funds:</i>		
Purchase of fixed assets	2,10,000	
Purchase of investments	<u>80,000</u>	<u>2,90,000</u>
Net increase in working capital		<u>1,05,000</u>

**Workings:**

(1)

<i>Dr.</i>	<i>Adjusted Profit and Loss Account</i>		<i>Cr.</i>
	Rs.		Rs.
To Balance b/f	50,000	By Net profit from trading	2,15,000
" Depreciation	60,000	<i>(balancing figure)</i>	
" Loss on sale of machine	20,000		
" General reserve	10,000		
" Discount on shares written off	5,000		
" Balance c/f	<u>70,000</u>		
	<u>2,15,000</u>		<u>2,15,000</u>

(2)

<i>Dr.</i>	<i>Fixed Assets Account</i>		<i>Cr.</i>
	Rs.		Rs.
To Balance b/f	6,10,000	By Bank - Sale	20,000
" Bank - purchase	2,10,000	" Profit and Loss A/c - loss on sale	20,000
<i>(balancing figure)</i>		" Depreciation	60,000
		" Balance c/f	<u>7,20,000</u>
	<u>8,20,000</u>		<u>8,20,000</u>

**Problem.4:**

Prepare a funds flow statement from the following balance sheets of Neha Ltd.:

<i>Liabilities</i>	<i>31.12.11</i>	<i>1.1.11</i>	<i>Assets</i>	<i>31.12.11</i>	<i>1.1.11</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Share capital	2,70,000	2,65,000	Goodwill	32,000	50,000
12% Debentures	--	50,000	Land and building	40,000	1,90,000
General reserve	1,00,000	75,000	Plant and machinery	3,00,000	2,00,000
Profit and loss account	60,000	40,000	Investments	20,000	50,000
Provision for taxation	30,000	20,000	Stock	60,000	90,000
Creditors	80,000	1,70,000	Debtors	1,00,000	80,000
Outstanding expenses	10,000	--	Preliminary expenses	--	10,000
Bank overdraft	<u>30,000</u>	<u>70,000</u>	Cash	<u>28,000</u>	<u>20,000</u>
	<u>5,80,000</u>	<u>6,90,000</u>		<u>5,80,000</u>	<u>6,90,000</u>

**Additional information:**

Depreciation charged on plant and machinery during the year was Rs. 25,000.

**Solution** ▶

**Neha Ltd.**  
**Funds Flow Statement**  
*for the year ended 31<sup>st</sup> December, 2011*

		Rs.
<i>Sources of funds:</i>		
Funds from operations	1,28,000	
Issue of shares	5,000	
Sale of land and building	1,50,000	
Sale of investments	30,000	3,13,000
<i>Application of funds:</i>		
Redemption of debentures	50,000	
Purchase of plant and machinery	1,25,000	
Payment of tax	20,000	1,95,000
Net increase in working capital		1,18,000

**Workings:***(1) Statement of Changes in Working Capital*

	1.1.11	31.12.11	<i>Effect on Working Capital</i>	
	Rs.	Rs.	<i>Increase</i> Rs.	<i>Decrease</i> Rs.
<i>Current Assets:</i>				
Stock	90,000	60,000		30,000
Debtors	80,000	1,00,000	20,000	
Cash	20,000	28,000	8,000	
	1,90,000	1,88,000		
<i>Current Liabilities:</i>				
Creditors	1,70,000	80,000	90,000	
Outstanding expenses	--	10,000		10,000
Bank overdraft	70,000	30,000	40,000	
	2,40,000	1,20,000		
Working capital	(50,000)	68,000		
Increase in working capital	1,18,000			1,18,000
	68,000	68,000	1,58,000	1,58,000

*(2)*

<i>Dr.</i>			<i>Cr.</i>
	Rs.		Rs.
To Goodwill written off	18,000	By Balances b/f	40,000
" Preliminary expenses written off	10,000	" Net profit from trading	1,28,000
" Depreciation on plant and machinery	25,000	<i>(balancing figure)</i>	
" General reserve	25,000		
" Provision for taxation	30,000		
" Balance c/f	60,000		
	1,68,000		1,68,000

(3)

Dr.		Plant and Machinery Account		Cr.	
To	Balance b/f	Rs. 2,00,000	By	Depreciation	Rs. 25,000
"	Bank purchase (balancing figure)	1,25,000	"	Balance c/f	3,00,000
		3,25,000			3,25,000

**Problem.5:**

From the balance sheets of B Ltd., make out, (i) a statement of changes in working capital for the year ended 31.3.12; and (ii) a funds flow statement for the year ended 31.3.12:

**Balance Sheets**

Liabilities	31.3.11	31.3.12	Assets	31.3.11	31.3.12
	Rs.	Rs.		Rs.	Rs.
Equity share capital	4,000	6,000	Goodwill	1,000	800
7% redeemable preference share capital	2,000	1,000	Land and building	2,000	1,500
General reserve	400	600	Plant	1,800	3,820
Capital reserve	--	500	Trade investments	200	700
Profit and loss account	360	540	Stock	1,700	1,560
Proposed dividend	560	780	Sundry debtors	1,200	1,800
Sundry Creditors	500	940	Bills receivable	300	360
Bills payable	200	120	Cash in hand and at bank	340	560
Liability for expenses	160	120	Preliminary expenses	200	140
Provision for tax	560	640			
	<u>8,740</u>	<u>11,240</u>		<u>8,740</u>	<u>11,240</u>

**Additional information:**

- (i) A piece of land was sold out and the balance was revalued. Profit on sale as well as profit on revaluation has been transferred to capital reserve.
- (ii) Interim dividend of Rs. 200 was paid during 2011-12.
- (iii) A part of the plant was sold for Rs. 240 (written down value Rs. 300).
- (iv) Depreciation of Rs. 360 was written off in 2011-12 on plant and no depreciation was charged on land and building.

**Solution** ▶**B Ltd.****(i) Schedule of Changes in Working Capital**

	31.3.11	31.3.12	Effect on Working Capital	
	Rs.	Rs.	Increase Rs.	Decrease Rs.
<b>Current Assets:</b>				
Stock	1,700	1,560		140
Sundry debtors	1,200	1,800	600	
Bills receivable	300	360	60	
Cash in hand and at bank	340	560	220	
	<u>3,540</u>	<u>4,280</u>		
<b>Current Liabilities:</b>				
Sundry creditors	500	940		440
Bills payable	200	120	80	
Liability for expenses	160	120	40	
	<u>860</u>	<u>1,180</u>		
Working capital	2,680	3,100		
Increase in working capital	420	--		420
	<u>3,100</u>	<u>3,100</u>	<u>1,000</u>	<u>1,000</u>

(ii)

**Funds Flow Statement**  
for the year ended 31<sup>st</sup> March, 2012

		Rs.
<i>Sources of funds:</i>		
Funds from operations	2,680	
Issue of equity shares	2,000	
Sale of land	1,000	
Sale of plant	240	
	5,920	5,920
<i>Application of funds:</i>		
Purchase of plant	2,680	
Purchase of trade investments	500	
Redemption of preference shares	1,000	
Payment of dividend: Rs. (560+200)	760	
Payment of tax	560	
	5,500	5,500
Net increase in working capital		420

**Workings:**

(1)

Dr.		<i>Land and Building Account</i>	Cr.
To Balance b/f	Rs. 2,000	By Bank – sales	Rs. 1,000
" Capital reserve	500	" <i>(balancing figure)</i>	
" -profit on sale and revaluation		" Balance c/f	1,500
	2,500		2,500

(2)

Dr.		<i>Plant Account</i>	Cr.
To Balance b/f	Rs. 1,800	By Bank – Sale	Rs. 240
" Bank – purchase	2,680	" Profit and Loss A/c – loss on sale	60
" <i>(balancing figure)</i>		" Depreciation	360
		" Balance c/f	3,820
	4,480		4,480

(3)

Dr.		<i>Adjusted Profit and Loss Account</i>	Cr.
To General reserve	Rs. 200	By Balances b/f	Rs. 360
" Interim dividend	200	" Net profit from trading	2,680
" Proposed dividend	780	" <i>(balancing figure)</i>	
" Provision for tax	640		
" Goodwill written off	200		
" Preliminary expenses	60		
" Depreciation on plant	360		
" Loss on sale of plant	60		
" Balance c/f	540		
	3,040		3,040

**Problem.6:**

The following balance sheets were extracted from the books of accounts of Jaypee Ltd., on 31.3.11 and 31.3.12 respectively:

Liabilities	Balance Sheets		Assets		
	31.3.11 Rs.	31.3.12 Rs.		31.3.11 Rs.	31.3.12 Rs.
Equity share capital	1,50,000	2,00,000	Goodwill	12,500	10,000
Redeemable preference share capital	1,50,000	75,000	Land and buildings at cost	1,50,000	1,75,000
Capital redemption reserve	--	25,000	Plant & machinery at cost	2,78,000	2,70,000
Securities premium	--	5,000	Investment in subsidiary company	35,000	45,000
10% 'A' mortgage debentures	25,000	12,500	Debtors	66,000	92,500
8% 'B' mortgage debentures	50,000	75,000	Long-term investment	37,500	2,250
Capital reserve	30,000	30,000	Closing stock	27,700	58,150
Profit and loss account	25,750	34,800	Cash in hand	550	1,150
Provision for depreciation:			Cash at bank	14,000	31,000
Land and buildings	30,000	37,500	Preliminary expenses	6,000	4,500
Plant and machinery	79,000	1,00,000			
Creditors	46,500	61,500			
Provision for taxation	26,000	33,500			
Proposed dividend	15,000	20,000			
	<u>6,27,250</u>	<u>7,09,800</u>		<u>6,27,250</u>	<u>7,09,800</u>

*Additional information:*

- Preference shares were redeemed partly out of fresh issue of equity share capital and partly out of funds available for dividends and premium of 5% payable on redemption was charged to profit and loss account.
- 50% of 10% 'A' debentures were redeemed at a discount of 10% and the amount of discount credited to profit and loss account.
- Part of plant and machinery costing Rs. 12,500 (against which a depreciation of Rs. 6,500 has been provided) was sold at Rs. 9,500 and profit thereon credited to profit and loss account.
- In addition to the proposed dividend of the earlier year and interim dividend of Rs. 20,000 was also paid during the year.
- Rs. 22,500 was paid during the year by way of taxation for the earlier year.

You are required to prepare: **(i)** schedule of changes in working capital; and **(ii)** funds flow statement.

**Solution** ▶**Jaypee Ltd.***(i) Schedule of Changes in Working Capital*

	31.3.11 Rs.	31.3.12 Rs.	Effect on Working Capital	
			Increase Rs.	Decrease Rs.
<i>Current Assets:</i>				
Debtors	66,000	92,500	26,500	
Closing stock	27,700	58,150	30,450	
Cash in hand	550	1,150	600	
Cash at bank	14,000	31,000	17,000	
	<u>1,08,250</u>	<u>1,82,800</u>		
<i>Current Liabilities:</i>				
Creditors	46,500	61,500		15,000
Working capital	61,750	1,21,300		
Increase in working capital	59,550			59,550
	<u>1,21,300</u>	<u>1,21,300</u>	<u>74,550</u>	<u>74,550</u>

(ii)

**Funds Flow Statement**  
for the year ended 31<sup>st</sup> March, 2012

		Rs.
<i>Sources of funds:</i>		
Funds from operations (see Working 1)	1,42,050	
Sale of plant and machinery	9,500	
Issue of equity shares at premium	55,000	
Issue of 'B' debentures	25,000	
Sale of long-term investment	15,000	2,46,550
<i>Application of Funds:</i>		
Payment of dividend	35,000	
Payment of tax	22,500	
Purchase of plant and machinery (see Working 4)	4,500	
Redemption of 'A' debentures: Rs. (12,500 - 1,250)	11,250	
Redemption of preference shares: Rs. (75,000 + 3,750)	78,750	
Purchase of land and building	25,000	
Purchase of investment in subsidiary company	10,000	1,87,000
Net increase in working capital		59,550

**Workings:**

(1)

Dr.		Adjusted Profit and Loss Account	Cr.
To Proposed dividend	40,000	By Balances b/f	25,750
" Provision for taxation	30,000	" Profit on sale of plant	3,500
" Depreciation provision		" Discount on redemption of debentures	1,250
Plant and machinery	27,500	" Net profit from trading	1,42,050
Land and building	7,500	<i>(balancing figure)</i>	
" Premium on redemption of preference shares	3,750		
" Capital redemption reserve	25,000		
" Goodwill written off	2,500		
" Preliminary expenses written off	1,500		
" Balance c/f	34,800		
	1,72,550		1,72,550

(2)

Dr.		Proposed Dividend Account	Cr.
To Bank: Rs. (20,000 + 15,000)	35,000	By Balance b/f	15,000
" Balance c/f	20,000	" Profit and loss account	40,000
	55,000	<i>(balancing figure)</i>	55,000

(3)

Dr.		Provision for Taxation Account	Cr.
To Bank	22,500	By Balance c/f	26,000
" Balance c/f	33,500	" Profit and loss account	30,000
	56,000	<i>(balancing figure)</i>	56,000

(4)

Dr.		Plant and Machinery Account		Cr.	
To	Balance b/f	Rs. 2,78,000	By	Asset disposal account	Rs. 12,500
"	Bank – purchase (balancing figure)	4,500	"	Balance c/f	2,70,000
		2,82,000			2,82,000

(5)

Dr.		Depreciation Provision (plant and machinery) Account		Cr.	
To	Asset disposal account	Rs. 6,500	By	Balance c/f	Rs. 79,000
"	Balance c/f	1,00,000	"	Profit and loss account (balancing figure)	27,500
		1,06,500			1,06,500

(6)

Dr.		Asset Disposal Account		Cr.	
To	Plant and machinery account	Rs. 12,500	By	Depreciation provision account	Rs. 6,500
"	Profit and loss account -profit on sale	3,500	"	Bank	9,500
		16,000			16,000

**Problem.7:**

From the following balance sheets of XYZ Ltd., make out: (i) a funds flow statement for the year 2011; and (ii) a statement of changes in working capital.

**Balance Sheets of XYZ Ltd.**

Liabilities	2010	2011	Assets	2010	2011
	Rs.	Rs.		Rs.	Rs.
Equity share capital	3,00,000	4,00,000	Goodwill	1,00,000	80,000
13% Redeemable preference share capital	1,50,000	1,00,000	Buildings	2,00,000	1,70,000
Capital reserve	--	20,000	Plant	80,000	2,00,000
General reserve	40,000	50,000	Investment (trade)	20,000	30,000
Profit and loss account	30,000	48,000	Debtors	1,40,000	1,70,000
Proposed dividend	42,000	50,000	Stock	77,000	1,09,000
Creditors	25,000	47,000	Bills receivable	20,000	30,000
Bills payable	20,000	16,000	Cash in hand	15,000	10,000
Liability for expenses	30,000	36,000	Cash at bank	10,000	8,000
Provision for taxation	40,000	50,000	Preliminary expenses	15,000	10,000
	<u>6,77,000</u>	<u>8,17,000</u>		<u>6,77,000</u>	<u>8,17,000</u>

**Additional information:**

- A building has been sold out in 2011 and the profit on sale has been credited to capital reserve.
- A plant has been sold for Rs. 10,000. The written down value of the plant was Rs. 12,000. Depreciation of Rs. 10,000 is charged on plant in 2011.
- Rs. 3,000 by way of dividend is received on trade investments. The includes Rs. 1,000 from pre-acquisition of profit which has been credited to investments account.
- An interim dividend of Rs. 20,000 has been paid in 2011.
- Intangible assets are written off against general reserve.

**Solution** ▶

(1)

**Funds Flow Statement**  
for the year ended 31<sup>st</sup> March, 2012

		Rs.
<i>Sources of funds:</i>		
Funds from operations (see Working 5)	1,83,050	
Sale of building (see Working 1)	50,000	
Sale of plant	10,000	
Issue of equity shares	1,00,000	
Dividend from investments	3,000	3,46,000
<i>Application of Funds:</i>		
Purchase of plant (see Working 2)	1,42,000	
Purchase of investment (see Working 3)	11,000	
Redemption of preference shares	50,000	
Payment of dividend	62,000	
Payment of tax	40,000	3,05,000
Net increase in working capital		41,000

(2)

**Statement of Changes in Working Capital**

	31.12.10 Rs.	31.12.11 Rs.	Effect on Working Capital	
			Increase Rs.	Decrease Rs.
<i>Current Assets:</i>				
Stock	77,000	1,09,000	32,000	
Debtors	1,40,000	1,70,000	30,000	
Bills receivable	20,000	30,000	10,000	
Cash in hand	15,000	10,000		5,000
Cash at bank	10,000	8,000		2,000
	2,62,000	3,27,000		
<i>Current Liabilities:</i>				
Creditors	25,000	47,000		22,000
Bills payable	20,000	16,000	4,000	
Liability for expenses	30,000	36,000		6,000
	75,000	99,000		
Working capital	1,87,000	2,28,000		
Increase in working capital	41,000			41,000
	2,28,000	2,28,000	76,000	76,000

**Workings:**

(1)

	Buildings Account		
<i>Dr.</i>	Rs.	Cr.	Rs.
To Balance b/f	2,00,000	By Bank - sale	50,000
" Capital reserve - profit on sale	20,000	(balancing figure)	
		" Balance c/f	1,70,000
	2,20,000		2,20,000



(2)

Dr.		Plant Account		Cr.	
		Rs.			Rs.
To	Balance b/f	80,000	By	Bank - sale	10,000
"	Bank - purchase	1,42,000	"	Profit and loss A/c - loss on sale	2,000
	<i>(balancing figure)</i>		"	Depreciation	10,000
			"	Balance c/f	2,00,000
		2,22,000			2,22,000

(3)

Dr.		Investments Account		Cr.	
		Rs.			Rs.
To	Balance b/f	20,000	By	Dividend	1,000
"	Bank - purchase	11,000	"	-out of pre-acquisition profit	
	<i>(balancing figure)</i>		"	Balance c/f	30,000
		31,000			31,000

(4)

Dr.		General Reserve Account		Cr.	
		Rs.			Rs.
To	Good written off	20,000	By	Dividend	40,000
"	Preliminary expenses written off	5,000	"	Profit and loss account	35,000
"	Balance c/f	50,000		<i>(balancing figure)</i>	
		75,000			75,000

(5)

Dr.		Adjusted Profit and Loss Account		Cr.	
		Rs.			Rs.
To	Loss on sale of plant	2,000	By	Balance b/f	30,000
"	Depreciation on plant	10,000	"	Dividend	2,000
"	Proposed dividend	70,000	"	Net profit from trading	1,83,000
"	Provision for taxation	50,000		<i>(balancing figure)</i>	
"	General reserve	35,000			
"	Balance c/f	48,000			
		2,15,000			2,15,000

6)

Dr.		Proposed Dividend Account		Cr.	
		Rs.			Rs.
To	Bank Rs. (42,000 + 20,000)	62,000	By	Balance b/f	42,000
"	Balance c/f	50,000	"	Profit and loss account	70,000
				<i>(balancing figure)</i>	
		1,12,000			1,12,000