UNIT 51 – UPSC – MANAGERIAL ACCOUNTING - Fund Flow Analysis

The notion of funds is described by several accountants in different way. The term funds have different meaning according to interpretation of accountants and accounting approaches. Flow of fund means inward and outward movement of funds of an enterprise. Basically, funds denote to working capital and flow means movement and changes. In this regard, flow of funds encompasses movement in working capital items such as current assets and current liabilities. Fund flow analysis is the analysis of flow of fund from current asset to fixed asset or current asset to long term liabilities or vice-versa.

Fund refers to working capital

Funds flow statement is an assertion of sources and uses of funds. It describes changes in net working capital between two balance sheet dates. Funds flow statement is prepared in three stages that include schedule of changing in working capital, calculation of funds from operations and statement of fund flow. Net inflows generate surplus cash for fund managers to spend which tend to create demand for stocks and bonds in their preferred sector. On the contrary, net outflows decrease excess cash for fund managers that results in lower demand for stocks and bonds. Consequently, investors can use fund flow information to decide where capital is being invested in terms of asset class or geography. The funds flow statement is helpful in numerous ways such as it is helpful in knowing the sources and uses of funds, suggests the ways in which working capital position can be improved, can be used in planning a sound dividend policy and beneficial in forecasting the flow of funds and in projecting the working capital requirements. It indicates various methods by which funds are obtained during a particular period and the ways in which these funds are employed. In simple words, it is a statement of sources and application of funds. A statement of sources and application of funds is a technical device designed to analyse the changes in the financial condition of a business enterprise between two dates.

Fund flows can offer shareholders with huge information about where capital is being committed around the world. In fund flow, there is all possible information of financial resources which have become available during an accounting period and in the manner these resources are utilized. The statement analyses the changes between opening and closing balance sheet of the period. The flow of fund in company may be conceived as a continuous process. For every use of funds, there must be an offsetting source. In general, the assets of the firm represent the net uses of funds, its liabilities and net worth represent net sources.

various sources and use of funds:

	Sources(Inflows)	Applications (Outflows)
1	Trading profit or funds provided by operations	Trading loss or funds depleted by operations
2	Issue of equity and preference shares (including premium or excluding discount)	Redemption of redeemable preference shares (including premium or excluding discount)
3	Issue of debentures (including premium or excluding discount)	Redemption of debentures (including premium or excluding discount)
4	Long term loan	Repayment of long term loan
5	Sale of fixed assets	Purchase of fixed assets
6	Sale of investment	Purchase of investments
7	Non-trading incomes, e.g. dividend	Payment of non-trading items, if any

To summarize, Fund flow statement is considered as an important tool for financial analysis and control. Fund flow analysis serves as a valuable aid to financial manager or creditor in evaluating the use of funds by firm and in explaining how these uses are financed. Future flow can also be evaluated through projected fund statement. This offers the finance manager an efficient method to assess the growth of firm, its resulting financial needs and the best way to finance these needs.