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B.Com Honours | Semester III | Calicut University

FINANCIAL STATEMENT ANALYSIS

Course Code: COM3MN204 • Module 3 Notes

Module III: Fund Flow Analysis

Fund Flow Analysis tracks the movement of financial resources (net working capital) into and out of an enterprise over an accounting period, identifying long-term sources and uses of funds.

Unit 9: Fund Flow Statement – Concept, Purpose, & Meaning of Funds

1. Meaning of Fund: Refers to Net Working Capital ((Working Capital = Current Assets - Current Liabilities)).
2. Meaning of Flow: Any transaction that causes a change in net working capital (occurs when a transaction involves a Current account and a Non-Current account).
3. Purpose: Explains structural causes behind working capital changes and evaluates long-term financing strategies.

Unit 10: Schedule of Changes in Working Capital – Statement Preparation

Tracks individual current asset and current liability movements between two balance sheet dates:
Increase in Current Assets → Increases Working Capital.
Increase in Current Liabilities → Decreases Working Capital.

Unit 11: Funds from Operations (FFO) – Net Profit Adjustments

Funds generated internally from main operational activities:

> **FFO = Net Profit + Non-Cash Expenses (Depreciation) + Non-Operating Losses - Non-Operating Incomes**

Unit 12: Step-by-Step Guide on Preparing Fund Flow Statement with Adjustments

Preparation Steps: (1) Prepare Schedule of Changes in Working Capital, (2) Calculate Funds from Operations (FFO), (3) Prepare Non-Current Account ledger adjustments (Fixed Assets, Provision for Tax, Proposed Dividend), and (4) Construct the Fund Flow Statement.

Practical Problem 1 (Schedule of Changes in Working Capital & Fund Flow Statement): Prepare a Schedule of Changes in Working Capital from the following Balance Sheet figures of Orion Ltd.:
Current Assets: Inventory (2023: Rs. 2,00,000; 2024: Rs. 2,50,000), Trade Receivables (2023: Rs. 1,50,000; 2024: Rs. 1,20,000), Cash (2023: Rs. 50,000; 2024: Rs. 80,000). Total CA: 2023 = Rs. 4,00,000; 2024 = Rs. 4,50,000.
Current Liabilities: Trade Payables (2023: Rs. 1,00,000; 2024: Rs. 1,20,000), Outstanding Expenses (2023: Rs. 20,000; 2024: Rs. 10,000). Total CL: 2023 = Rs. 1,20,000; 2024 = Rs. 1,30,000.

Schedule of Changes in Working Capital:

Particulars	2023 (Rs.)	2024 (Rs.)	Increase (Rs.)	Decrease (Rs.)
(A) Current Assets:				
1. Inventory	2,00,000	2,50,000	50,000	-
2. Trade Receivables	1,50,000	1,20,000	-	30,000
3. Cash in Hand	50,000	80,000	30,000	-
Total Current Assets (A)	**4,00,000**	**4,50,000**		
(B) Current Liabilities:				
1. Trade Payables	1,00,000	1,20,000	-	20,000
2. Outstanding Expenses	20,000	10,000	10,000	-
Total Current Liabilities (B)	**1,20,000**	**1,30,000**		
Working Capital (A - B)	**2,80,000**	**3,20,000**		
Net Increase in Working Capital	**40,000**	**-**	**-**	**40,000**
TOTAL	**3,20,000**	**3,20,000**	**90,000**	**90,000**

Net Increase in Working Capital = 3,20,000 (2024) - 2,80,000 (2023) = Rs. 40,000