

Cash Flow and Fund Flow Statement

Cash Flow Statement

Definition:

The Cash Flow Statement is a financial statement that provides a summary of the cash inflows and outflows for a business over a specific period. It categorizes these cash flows into three main activities: Operating, Investing, and Financing activities. The purpose of this statement is to show how changes in the balance sheet and income affect cash and cash equivalents.

Components of the Cash Flow Statement:

1. Operating Activities:

- Includes cash flows from primary business operations.
- Examples: Cash received from customers, cash paid to suppliers, wages, taxes, etc.
- It shows whether the company is generating sufficient cash from its core business activities to sustain itself.

2. Investing Activities:

- Includes cash flows from the purchase and sale of long-term assets and investments.
- Examples: Purchase or sale of property, plant, and equipment (PPE), investments, etc.
- It reflects the company's investment in future operations.

3. Financing Activities:

- Includes cash flows from transactions with the company's owners and creditors.
- Examples: Issuance or repurchase of equity, borrowing or repayment of debt, dividends paid, etc.
- It indicates how the company finances its operations and growth.

Purpose:

- To assess the company's liquidity and financial health.
- To understand the sources of cash and how it is used.
- To evaluate the company's ability to generate cash to pay debts, fund operations, and make investments.



CBSE



ICSE



NTSE



Banking &
Insurance



Central Govt.
Service



State Govt.
Services



LAW
Entrance



MBA
Entrance



Railways & Metro
Services

...many more

abhyasonline.in



Fund Flow Statement

Definition:

The Fund Flow Statement is a financial statement that explains the changes in the financial position of a company between two balance sheet dates. It highlights the sources and uses of funds, focusing on long-term financial planning. The "fund" here refers to working capital, which is the difference between current assets and current liabilities.

Components of the Fund Flow Statement:

1. Sources of Funds:

- Inflows or increases in funds.
- Examples: Issue of shares or debentures, long-term loans raised, sale of fixed assets, etc.
- These transactions increase the working capital of the company.

2. Uses of Funds:

- Outflows or decreases in funds.
- Examples: Purchase of fixed assets, repayment of loans, payment of dividends, etc.
- These transactions decrease the working capital of the company.

3. Statement of Changes in Working Capital:

- This statement is prepared to show the changes in current assets and current liabilities between two balance sheet dates.
- It highlights whether there has been an increase or decrease in working capital.

Purpose:

- To analyze the financial health and stability of a company.
- To understand how the company's financial resources are being utilized.
- To assist in long-term financial planning by highlighting the movements of funds between different activities.



CBSE



ICSE



NTSE



Banking &
Insurance



Central Govt.
Service



State Govt.
Services



LAW
Entrance



MBA
Entrance



Railways & Metro
Services

...many more

abhyasonline.in



**Course
&
Test Series**

Advance Accounting - Module 20



CBSE



ICSE



NTSE



**Banking &
Insurance**



**Central Govt.
Service**



**State Govt.
Services**



**LAW
Entrance**



**MBA
Entrance**



**Railways & Metro
Services**

...many more

abhyasonline.in

Key Differences between Cash Flow and Fund Flow Statements:

Basis	Cash Flow Statement	Fund Flow Statement
Focus	Focuses on cash inflows and outflows over a period.	Focuses on the movement of funds (working capital) over a period.
Objective	To show liquidity and short-term financial health.	To show the financial position and fund movements.
Time Frame	Deals with cash transactions within a specific period.	Deals with changes in financial position over two balance sheet dates.
Statement Coverage	Covers all cash-related transactions.	Covers changes in working capital.
Preparation	Prepared based on actual cash transactions.	Prepared based on accrual accounting principles.
Utility	Useful for short-term planning and liquidity management.	Useful for long-term financial planning and analysis.

Solved Question on Cash Flow Statement

Ques: A company receives ₹5,00,000 from its customers and pays ₹3,00,000 to its suppliers during the year. It also pays ₹50,000 in wages and ₹20,000 in taxes. Calculate the net cash flow from operating activities.

Solution:

Operating Activities:

- Receipts from Customers: ₹5,00,000
- Payments to Suppliers: ₹3,00,000
- Wages Paid: ₹50,000
- Taxes Paid: ₹20,000

Net Cash Flow from Operating Activities:

Net Cash Flow = Receipts from Customers - (Payments to Suppliers + Wages Paid + Taxes Paid)

Net Cash Flow = ₹5,00,000 - (₹3,00,000 + ₹50,000 + ₹20,000) = ₹5,00,000 - ₹3,70,000 = ₹1,30,000



Assignment

 CBSE

Ques 1: A business purchases equipment for ₹2,00,000 and sells an old machine for ₹50,000. What is the net cash flow from investing activities?

 ICSE

Ques 2: A company issues shares worth ₹1,00,000, repays a loan of ₹30,000, and pays dividends of ₹20,000. Calculate the net cash flow from financing activities.

 NTSE

Ques 3: A company receives ₹6,00,000 from its customers and pays ₹4,00,000 to its suppliers during the year. Additionally, it pays ₹80,000 in wages and ₹30,000 in taxes. Calculate the net cash flow from operating activities.

 Banking & Insurance

Ques 4: A business purchases a new building for ₹5,00,000 and sells a piece of land for ₹2,00,000. What is the net cash flow from investing activities?

 Central Govt. Service

Ques 5: A company raises a long-term loan of ₹2,50,000, repays a previous loan of ₹1,20,000, and pays dividends amounting to ₹40,000. Calculate the net cash flow from financing activities.

 State Govt. Services

 LAW Entrance

 MBA Entrance

 Railways & Metro Services

...many more

abhyasonline.in