



Comparison of funds flow statement with others and Uses of funds flow statement

LESSON 23 OF 23



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FUNDS FLOW STATEMENT

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Differences between Funds Flow Statement and Balance Sheet

Point of Distinction	Funds Flow Statement	Balance Sheet
1. Meaning	Describes from where funds have been derived and the uses to which these funds were put	Statement of debit and credit balances prepared on particular date
2. Period of Preparation	Prepared every month – temporary changes	Prepared yearly throughout the life of the business
3. Publication	Published under special circumstances	Published by management- others have interest in smooth running of business

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Point of Distinction	Funds Flow Statement	Balance Sheet
4. Components	Includes accounts which affect working capital	Balances of personal and real accounts
5. Purpose	To know sources and uses of working capital	To ascertain the financial position of business on a particular date
6. Earnings	All earnings treated as Sources of funds	Only retained earnings treated as source of funds

Differences between Funds Flow Statement and Schedule of changes in working capital

Point of Distinction	Funds Flow Statement	Schedule of Changes in Working Capital
1. Meaning	Tells from where the funds have been derived and how its put to use	Shows increase or decrease in working capital due to changes in current assets and liabilities.
2. Format	Prepared both in T form or statement form	Prepared in statement form only
3. Coverage	Includes all non-current items and net result of current items	Includes current items only
4. Change in Assets and Liabilities	Increase in non-current asset and decrease in non-current liability – Application of funds and reverse is Source of funds	Increase in Current asset and decrease in current liability – Application and decrease in current asset and increase in current liability – Source

Uses of Funds Flow Statement

- ▶ Explains financial consequences of business operations
- ▶ Answers intricate queries
- ▶ Acts as an instrument of resources
- ▶ Test as to effective or otherwise use of working capital
- ▶ Helps in lending or borrowing operations and policies