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THE SIGNIFICANCE AND ANALYSIS OF FUNDS FLOW STATEMENT IN BUSINESS

GUNTI LAKSHMI SHARANYA, R. RANGAIAH
MBA Student, Assistant Professor
DEPT OF MBA
PVKK INSTITUTE OF TECHNOLOGY(AUTONOMOUS), Anantapuramu – 515001 (A.P)
sharanyagunti80@gmail.com, roddamr@gmail.com

ABSTRACT

Fund Flow Statements summarize a firm's inflow and outflow of funds. Simply put, it tells investors where funds have come from and where funds have gone. The statements are often used to determine whether companies efficiently source and utilize funds available to them. Fund flow statements are prepared by taking the balance sheets for two dates representing the coverage period. The increases and decreases must then be calculated for each item. Finally, the changes are classified under four categories: (1) Long-term sources, (2) long-term uses, (3) short-term sources, (4) short-term uses. It is also important to zero out the non-fund based adjustments in order to capture only the changes that are accompanies by flow of funds. However, income accrued but received and expenses incurred but not received reckoned in the profit and loss statement should not be excluded from the profit figure for the fund flow statement. Fund flow statements can be used to identify a variety of problems in the way a company operates. For example, companies that are using short-term money to finance long-term investments may run into liquidity problems in the future. Meanwhile, a company that is using long-term money to finance short-term investments may not be efficiently utilizing its capital.

I. INTRODUCTION

FUNDS FLOW STATEMENT

INTRODUCTION:

The basic financial statements i.e., the Balance Sheet and Profit & Loss A/c or Income Statement of business reveals the net effect of various transactions on operational and financial position of the company. The balance sheet gives a summary of the assets & liabilities of an undertaking at a particular point of time.

There are many transactions that take place in an undertaking and which do not operate Profit & Loss A/c. Thus another statement has to be prepared to show the change in Assets & Liabilities from the end of one period of time to the end of another period of time. The statement is called a statement of changes in financial position or a Funds Flow Statement. The Funds Flow Statement is a statement which shown the movement of funds and is a report of financial operations of business undertaking. In simple words it is a statement of source and application of funds.

MEANING & CONCEPT OF FUNDS:

The term "Fund" has been defined and interpreted differing by different experts.

Broadly the term fund refers to all the financial resource of the company on the other extreme fund has been understood as cash only. The most acceptance meaning of the "fund" is "working capital".

Working Capital is excess of current assents over current liability. The term fund has a variety of meaning.

A) CASH FUND OR NARROW SENSE:

In a narrow sense, funds mean only cash. 'Cash flow statement portrays net effect of various business transactions cash into account receipts & disbursement of cash. The concept of preparing funds from statement is not accepted, as there are many such transactions that do not affect cash but represent the flow of fund.

For Ex:

Purchase of furniture on credit does not affect cash but there is flow of fund.

B) CAPITAL FUND (or) BROADER SENSE

Here funds means all financial resources used in business, whether in the form of men, money, material, machine & others.

C) NET WORKING CAPITAL (or) POPULAR SENSE

Networking capital means differences between current assets & liabilities. A fund generally refers to cash or cash equipment or to working capital.

In any business we cannot under estimate the flow of funds from two operations. The business runs with funds but the organization knows how to flow of funds.

The Funds Flow Statement is concerned with sources and applications of organization.

Statement of changes in working capital shows the increase or decrease in the working capital.

"Funds from Operations" statement shows how much funds from operations.

NEED AND IMPORTANCE OF STUDY

- Many business owners disregard the importance of Funds flow statements because they unwittingly believe that their current financial standing can be construed from other financial reports and projections. Unfortunately, however, a Funds flow statement is necessary to adequately assess the incoming and outgoing flow of Funds and other resources in a business.
- Not only will a business owner with a Funds flow system be more aware of his or her financial standing, but it will also help investors to make educated decisions on future investments. A business with regular and reliable Funds flow statements shows more economic solvency, and is more attractive to investors.
- A Funds flow statement documents the incoming and outgoing Funds in plain terms. Future sales and sales made for credit (unless they have been paid off) are not included in the Funds flow statement, and most of the data will come from core operations. Payables and receivables should be expressly defined, as should depreciation of product value and inventory that has not yet been moved.
- This will allow a business owner to compare past periods with the current financial standing and determine whether your receivables have increased or decreased.
- This can also help to track your investments next to your receivables and payables. Are your investments increasing or decreasing in value? And has your inventory moved at a steady pace? New or expanding businesses can expect to see a decrease in Funds flow, but this doesn't mean that the business is going under. More stables businesses should see a steadily increase in Funds flow over a period of several months or years.
- There are typically five different sections in a Funds flow statement, though large businesses might have more complex Funds flow systems as required.

SCOPE OF THE STUDY

Financial analysis consists of ratio analysis and funds flow analysis. To know funds flow from one to one, as the time available is very limited and the subjects are very vast, the study is continued to overall financial condition of a firm. This study is to know working capital increase or decrease funds from operation, sources and application of funds of Sponge Iron India Limited**.**

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OBJECTIVES OF THE STUDY

- To know the operational efficiency of Sponge Iron India Limited
- To study & prepare Funds Flow Statements.
- To analyze the movement of funds between the dates of two balance sheets in period of study 2019-2024.
- To identify the changes in the elements of focus and uses of working capital in between above mentioned year.
- To improve the financial performance of the company.

II. RESEARCH METHODOLOGY

PRIMARY DATA:

The present study is mainly based on primary and secondary sources of Data collection. The primary data was directly collected by observations, Interviews questionnaire etc.

SECONDARY DATA:

The secondary data was collected form already published sources such as annual reports, returns and internal records.

THE DATA COLLECTION INCLUDES:

a. Data collected from annual reports of **Sponge Iron India Limited**.

b. Reference form textbooks relating to financial management.

RESEARCH TOOLS: Funds Flow Statement

Tools of Analysis:

Various statistical tools such as percentages averages were used to process the date, of effectiveness of funds flow in organization & management in **Sponge Iron India Limited.**

Research Design: Analytical Study

Data Sources : Secondary Data

LIMITATIONS OF THE STUDY

- The study is only pertaining to **Sponge Iron India Limited**.
- The period of study is of 5 years and the performance evaluation is also limited to 5 years.
- The study is purely based on the data available the form of annual reports...
- Analysis is only means and not an end itself; different people interpret the same analysis in different ways.
- The overall financial performance is taken into consideration without taking into account the minute values or individual values.

This study is conducted within a short period. The time factor is also a limitation.

III. REVIEW OF LITERATURE

TITLE: **BANKRUPTCY, WORKING CAPITAL AND FUNDS FLOW COMPONENTS**

AUTHOR: Emel Kahya Managerial Finance, volume: 23 Issue: 3,

Year:1997.

ABSTRACT:

The purpose of this paper is to assess the usefulness of financial ratios derived from working capital based funds flow information to predict the failure of US industrial firms. Unlike cash-based funds flow ratios, used in the previous papers, capital-based funds ratios are therefore they are expected to be better predictors of less volatile, business failure. Moreover, the paper utilizes a more general definition of business failure than the legal definition. The analysis is carried out using a stepwise logit procedure. The results indicate that working capital-based funds flow measures are superior to cash-based funds flow measures in business failure prediction models.

TITLE: PERFORMANCE OF THE FUND.

Author: Fredrik Kopsch, Han-Suck Song, Mats Wilhelmsson Managerial Finance, Volume: 4 l . Year:2015.

ABSTRACT:

The purpose of this paper is to study the determinants of aggregate fund flows to both equity and hybrid mutual funds. The authors test three hypotheses that help explaining the relationship between mutual fund flows and stock market returns, namely, the feedback-trader hypothesis, the price-pressure hypothesis, and the information- response hypothesis. Design/methodology/approach The study relies on Swedish quarterly data on mutual fund flows over the period 1998-2013.

TITLE: **FUND FLOWS AND PAST PERFORMANCE IN AUSTRALIAN MANAGED FUNDS.**

Author: Rakesh Gupta, ThadavillilJithendranathan Accounting Research Journal, Volume: 25 Issue: 2,

Year:2012.

Abstract: The purpose of this paper is to examine the various segments of the managed funds market to establish if there is any significant difference in the way the assets are allocated into various asset categories and if investors base their investment decisions based on the past performance of the fund. Design/methodology/approach- An average investor who does not possess superior investment knowledge may base their investment decision on the past performance of funds resulting in flow based on past performance. This study uses a panel regression model to test the relationship between net flows and past excess returns.

TITTLE: COSTS AND BENEFITS OF CASH FLOW ACCOUNTING: IMPLICATIONS FOR MALAYSIA

AUTHOR: Neil Garrod and Fatimah Shahman

JOURNAL: COSTS AND BENEFITS OF CASH FLOW ACCOUNTING: IMPLICATIONS FOR MALAYSIA

YEAR: 1 January 1996

ABSTRACT

An issue which has received recent attention internationally is that of cash flow statements. In Malaysia members of the accounting bodies have been invited to present their comments and views on the possibility of adopting cash flow statements in Malaysia. Historical links with the United Kingdom mean that extant UK accounting standards usually find their equivalents in Malaysia sooner rather than later. The UK standard on cash flows requires a categorization of cash flows which is different to the IASC and every other regulatory body except that in Hong Kong. On the other hand, Singapore, which has historically mirrored extant UK regulations quite closely, has decided to adopt the IASC model for cash flows. Thus the debate about whether, and how, to move from funds flow to cash flow reporting in Malaysia is tinged with an additional degree of complexity.

By setting out a brief history of the transition from funds flow to cash flow reporting in the rest of the world and providing evidence from observations on the UK standard by preparers of accounts, it is hoped to contribute to the current debate in Malaysia.

TITTLE: Local and regional accounting and reporting in spain: an empirical outlook

AUTHOR: Bernardino Benito, Vicente Montesinos and José Manuel Vela

JOURNAL: Local and regional accounting and reporting in spain: an empirical outlook

YEAR: 1 March 2003

ABSTRACT

During the first half of the nineties, many accounting innovations and reforms have been introduced in Spanish governmental accounting. In this context, the purposes of this paper are, on the one hand, to present the main features of local financial reporting legal requirements, which are very close to the

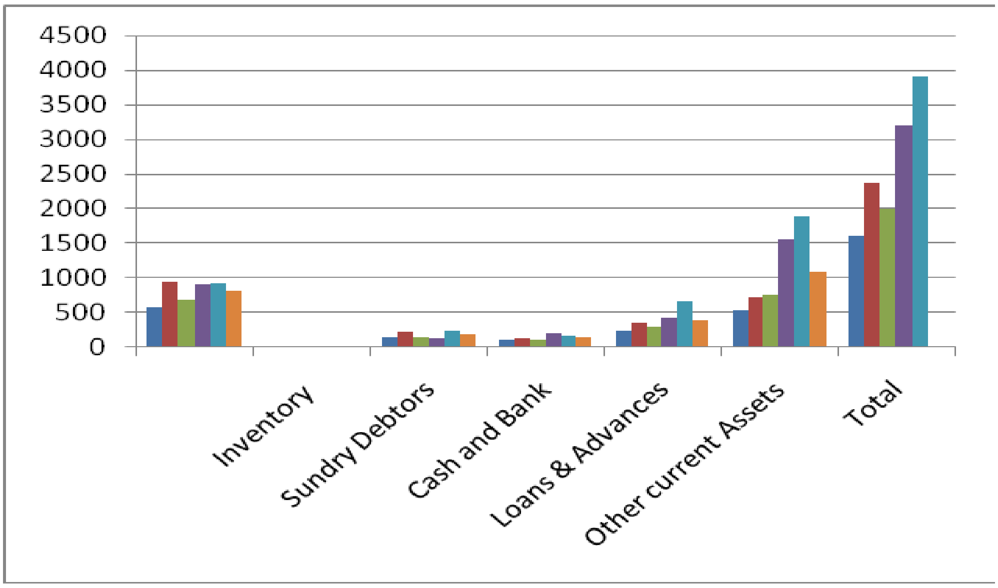
central state accounting regulations, as well as real accountability and quality of reported information. On the other hand, this paper looks for an analysis of the main differences and similarities of accounting regulation among Spanish regional governments, identifying practices and users' expectations, as the result of a survey developed by the authors.. Also presented are some proposals concerned with a possible harmonised accounting and reporting common framework, in order to maintain the traditional homogeneity that has characterised the past governmental accounting system in Spain.

IV. DATA ANALYSIS & INTERPRETATION

Composition of current Assets
(All the amounts are in Cr)
TABLE 4.1

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25	Avg.
Inventory	939.75	683.24	901.86	924.97	954.27	4404.11
Sundry Debtors	224.60	152.20	148.18	240.85	296.64	1242.47
Cash and Bank	143.73	136.64	198.40	175.43	211.64	823.84
Loans & Advances	351.82	292.65	422.61	674.03	713.34	2452.45
Other current Assets	728.13	764.04	1549.77	1895.80	1987.51	
Total	2368.01	2008.77	3200.82	3913.08	4159.40	6925.23

GRAPH NO 4.1



INTERPRETATION:

The income statement is also called as income statement, it is considered to be the most useful of all financial statements. It prepared by a business concern in order to know the profit earned and loss sustained during a specified period. It explains what has happened to a business as a result of operations between two balance sheet dates. For this purpose it matches the revenues and cost incurred in the process of earning revenues and shows the net profit earned or loss suffered during a particular period.

The nature of Income which is a focus of the income statement can be well understood if business is taken as an organization that uses “Input” to produce “Output”. The output of the goods and services that the business provides to its customers. The values of these outputs are the goods and services that the business provides to its customers. The values of these outputs art the amounts paid by the customers for them. These amounts are called “revenues” in the accounting. The inputs are the economic resources used by the business in providing these goods and services. These are termed “expenses” in accounting.

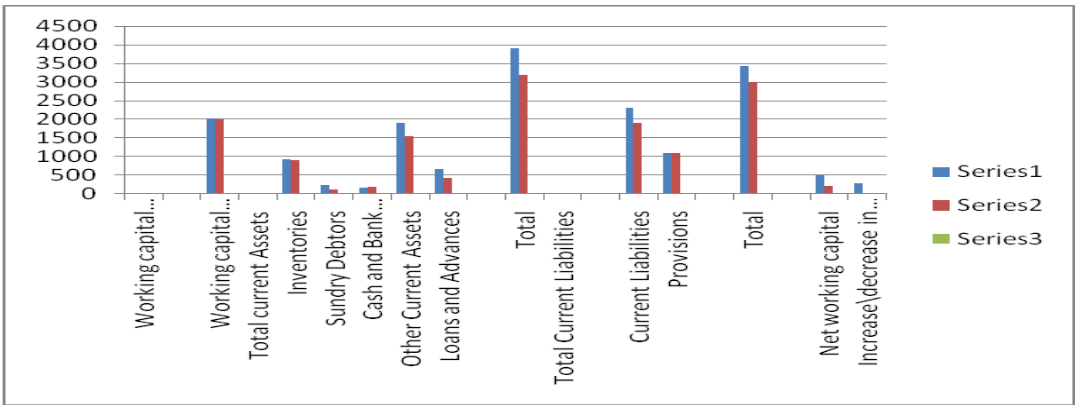
STATEMENT OF CHANGES IN WORKING CAPITAL

Rs in Crores

TABLE 4.2

Working capital turnover ratio 2025		
Working capital turnover ratio	**2025**	**2024**
Total current Assets		
Inventories	**954.27**	**924.97**
Sundry Debtors	**296.64**	**240.85**
Cash and Bank Balances	**211.64**	**175.43**
Other Current Assets	**1987.51**	**1895.80**
Loans and Advances	**713.34**	**674.03**
Total	**4159.40**	**3913.08**
Total Current Liabilities		
Current Liabilities	**2451.88**	**2316.49**
Provisions	**1565.21**	**1306.13**
Total	**3817.11**	**3420.60**
Net working capital	**342.31**	**490.48**
Increase\decrease in net working capital	**-168.17**	

GRAPH NO 4.2



INTERPRETATION:

The networking capital of Sponge Iron India Limited has been increased to 342.31 Cr the financial position i.e. the performance of Sponge Iron India Limited has increased and the current assets defects its current liability.

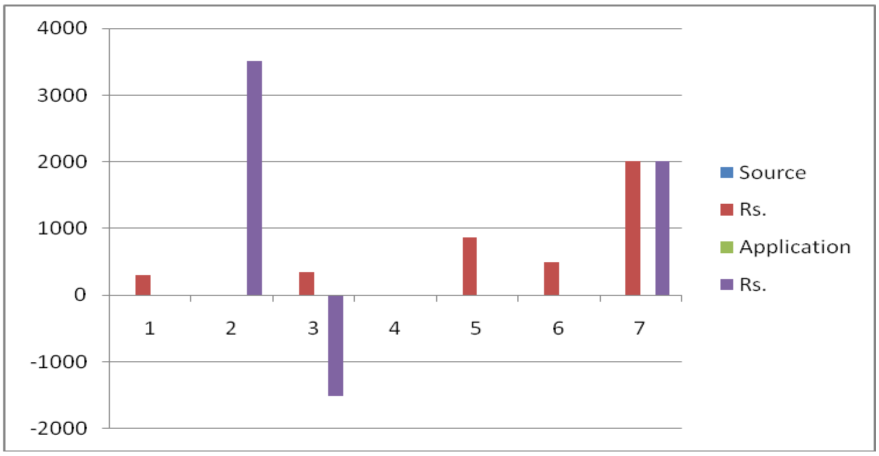
STATEMENT OF SOURCES AND APPILICATION OF FUNDS FOR THE PERIOD (2024-25)

Rs in Crores

TABLE 4.3

Source	Rs.	Application	Rs.
Issue of share capital	315.54	Funds lost in operation	0.00
Raising of long term loans	0.00	Repayment of long term loan loans	3658.87
Sale of non-current (fixed) assets	358.64	Purchase of long term investments	-1868.98
Non-trading receipts	0.00		
Sale of investment	967.54		
Decrease in working capital	168.17		
	1789.89		**1789.89**

GRAPH NO 4.3



INTERPRETATION:

From the table it is observed that the working capital of company shows increased trend. The current Asset of the company has increased Rs 3658.89 in 2024-2025. But the item cash balance showing increasing trend. The current liabilities of company are decreased in 2024-2025.In the net working capital of company stood 1789.89 It is decreased in 2024-25. The decreasing net working capital.

Regarding the application of funds 35.68 % used for investment in fixed assets and funds used for working capital purpose. Constitute 32.67 % respectively

STATEMENT OF CHANGES IN WORKING CAPITAL

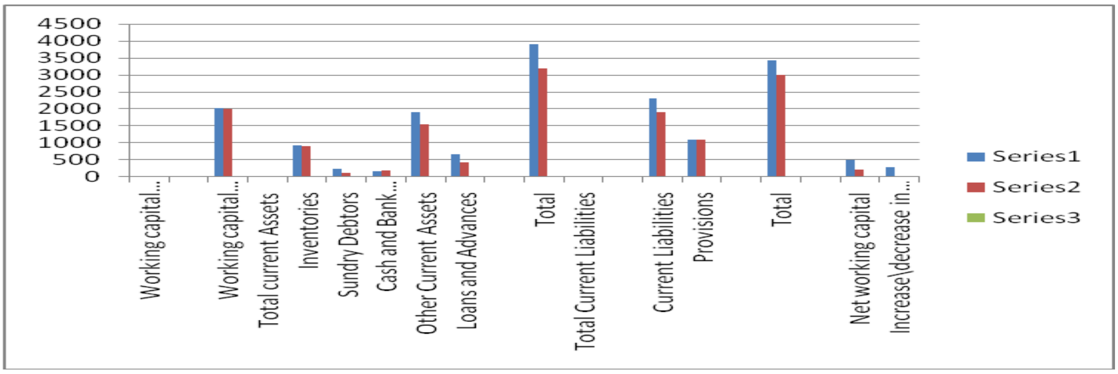
Rs in Crores

TABLE 4.4

Working capital turnover ratio 2024		
Working capital turnover ratio	**2024**	**2023**
Total current Assets		
Inventories	**924.97**	**901.86**

Sundry Debtors	**240.85**	**148.18**
Cash and Bank Balances	**175.43**	**198.40**
Other Current Assets	**1895.80**	**1549.77**
Loans and Advances	**674.03**	**422.61**
Total	**3913.08**	**3200.82**
Total Current Liabilities		
Current Liabilities	**2316.49**	**1893.98**
Provisions	**1306.13**	**1296.57**
Total	**3420.60**	**2990.55**
Net working capital	**490.48**	**212.32**
Increase\decrease in net working capital	**280.16**	

GRAPH NO 4.4



INTERPRETATION:

The working capital of Sponge Iron India Limited has been increased to 280.16 Cr the financial position i.e. the performance of Sponge Iron India Limited has increased and the current assets defects its current liability.

V. FINDINGS

- The networking capital of Sponge Iron India Limited has been increased to 296.64 Cr the financial position i.e. the performance of Sponge Iron India Limited has increased and the current assets defects its current liability.
- The networking capital of Sponge Iron India Limited has been decreased to 45.54 Cr the financial position i.e. the performance of Sponge Iron India Limited has increased and the current assets defects its current liability.
- The networking capital of Sponge Iron India Limited has been decreased to 237.31 Cr the financial position i.e. the performance of Sponge Iron India Limited has increased and the current assets defects its current liability.
- The networking capital of Sponge Iron India Limited has been increased to 445.04 Cr the financial position i.e. the performance of Sponge Iron India Limited has increased and the current assets defects its current liability
- In 2019-20 would be increased by Rs. 45.21 .In the year 2021-22 the working capital has been decreased by Rs. -247.59. In the year 2022-23 the working capital is Rs. 212.32. In 2024-25 Rs.168.71 has decreased the working capital.

VI. SUGGESTIONS

Net working capital is high; it is suggested to maintain sufficient net working capital.

- Effective inventory management is needed in the company

- The firm should increase investment in current assets to create sufficient securities for the current liabilities
- For the improving the financial performance of the company the following suggestions are made.
- In order to reduce the outside borrowings in the company has to acquire. The capital from equity sources. Keeping in view the debt equity the proportion as normal.
- The liquidity of the company should be improved by maintaining the optimum current assets and liquid assets according to standard norms.
- The quantum of the sales generated should be improved impressively in order to attain higher return on investment.
- To improve the financial health of the company and maximizing the time between the source mobilization and utilization the management must introduce the new cost saving techniques.

VII. CONCLUSION

- The sources were not utilized up to the expectation.
- The working capital decreased, which indicates that have more current liabilities than the current assets.
- The reason for this unsatisfaction is due to maintenance of improper books of accounts and it will lose the control over its funds.

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