Examrace

Competitive Exams Accountancy: Fund flow analysis

Fund Flow Analysis

Fund flow analysis is accomplished by preparing a fund flow statement for evaluating the uses of funds and determining the sources of funds to finance those users. Fund flow analysis is done by studying past fund flows and projecting future fund flows. Fund flow statement provides the management of a corporate enterprise complete first hand knowledge of the financial growth of the enterprise and its resulting financial needs. As a matter of fact funds flow statement is known as the best way to determine as to how to finance those needs. It is useful foot in planning needs. PRO FORMA FINANCIAL STATEMENT: Preparation of pro forma financial statement is another technique for financial forecasting. In pro forma financial statement, the pro forma balance sheet and profit and loss account are prepared to enable the management to evaluate the performance of the enterprise future financial conditions. CASH BUDGET: Cash budget is another technique of financial forecasting. It is used to determine short-term cash needs. The liquidity position of an enterprise and degree of business risk involved for planning a realistic margin of safety. It gives clues of the enterprise for adjusting the liquidity cushion, rearranging maturity structure of the debt and making arrangement for availing cash credit facilities from the banks.

Objective of Cost Accounting

1 To analyze and classify all expenditure with reference to the cost of products and operation

2 To arrive at the cost of production of every unit, job, operation, process, department or services and to develop cost standards.

3 To indicate to the measurement ant inefficient and the extent of various forms of waste weather material, time, expense or in the use of machinery, equipment and tools. Analysis of the cause of unsatisfactory result may indicate remedial measure.

4 to provide data for periodical profit and loss accounts and balance sheets at such intervals e. g. Weekly, monthly or quarterly, as many as desired by the management during the financial year, not only for the whole business but also by department or individual products.

5 To provide actual figure of cost for comparison with estimates and to serve as guide for future estimate or quotation and to assist the management in their price fixing policy.

6 To show, where standard cost are prepared, what the cost of production is to be and with which the actual cost which are eventually recorded may be compared.

7 To present comparative cost for data for different periods and various volumes and to provide guidance in the development of business. This is also helpful recorded may be compared. 8 To indicate weather the cost of certain article or component made in factory is such that it would be more economical to buy from outside sources.

9 To record the relative production result of each unit of plant and machinery in use as a basis for examining its efficiency.

10 To explain in detail the sources of profit or loss revealed in total, in profit and loss account.

11 to provide a perpetual inventory of stores and other material so that interim profit and loss account and balance sheet can be prepared without stock taking and check on stores and adjustment are made at frequent intervals.

Problems in Financial Forecasting

1 Business environment is frequently changing. Every change reflects upon uncertainty of future and enhances the degree of incompatibility of present decision in future. Therefore the likely margin of error inherent in forecasting the future should be considers in advance avoiding disappointment caused by false results and the loss to be incurred due to inaccuracy attached to the forecast.

2 Pre testing under controlled conditions of forecast should be done by designing alternative forecast for making a better choice and flexibility in decision making by allowing a pick up one out of several forecast.

3 Continuous modification should be made in forecasting to adjust the same against changes in business environment. Many experts hold that forecasting to adjust ed to changes in sales volumes inventory levels, balance of debtors affected by seasonal parameters.

4 to make the forecast reliable and also as a precautionary measure to unpredictability of forecasting results, the corporate enterprise is advised by experts to maintain sufficient cash balance to minimize the risk involved in higher degree of unpredictability associated with forecasting liquidity.

5 Use of mathematical technique can make the forecast more reliable and dependable. These techniques may include Simple linear regression method, Simple curvilinear regression method & Multiple regression models.