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Comparative Study of Cash Flow Statement

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Abstract: A cash flow statement is prepared by an entity; it is one of the most important statements. It shows cash receipts from major sources and cash payments for major uses during a period. It may be prepared at quarterly intervals but at least at yearly intervals. It provides useful information about an entity's activities in generating cash from operations. It informs about programme to repay debts, distribute dividends or reinvest to maintain or expand its operating capacity. It gives also information about its financing activities, both debt and equity, and about its investment in fixed assets or current assets other than cash. In other words, a cash flow statement lists down various items and their respective magnitude which bring about changes in the cash balance between two balance sheet dates. All the items whether current or non-current which increase or decrease the balance of cash are included in the cash flow statement. Therefore, the effect of changes in the current assets and current liabilities during an accounting period on cash position is assessed from its perusal. The depiction of all possible sources and applications of cash in the cash flow statement helps the financial manager in short-term financial planning in a significant manner; interest payment on debentures and dividend pay-off to shareholders can be met out of cash only. This Article is based on the practice followed and instruction for its preparation contained in the various text books for the guidance of the students and accountants. It is hoped that the content of this Article would help the readers to understand Cash-flow statement properly.

Keywords: cash, operating activities, investing activities, financial activities**.**

I. INTRODUCTION

Cash flow statement is a statement which shows all the sources of cash inflow and uses of cash outflow of the business concern during a particular period of time. Cash flow statement is also known as statement of cash flows is a financial statement which shows how the changes in balance sheet accounts and income affects cash and cash equivalents. It statement includes only the inflows and outflows of cash and cash equivalents; it also excludes transactions that do not directly affect cash receipt payments. These non-cash transactions include depreciation or write –offs on bad debts or credit losses. The cash flow statement is a cash basis report on 3 types of financial activities: operating activities, investing activities, financing activities. The cash flows management is an enterprise which should prepare a cash flow statement and should present if for each period for which financial statements are prepared in accordance with AS-3 cash flows statements.

II. REVIEW OF LITERATURE

In the prior literature cash flow analysis are examined mainly for two reasons. First reason is to explore whether cash flow components carry information about financial health of a company and to use that information to derive firms' life cycle stages. Second reason is to analyze the value relevance of operating, investing and financing cash flows versus the value relevance of earnings and accruals. To start with, **Gentry et al** evaluates the contributions of cash flow components to identify financial health of a company. The researchers state that, if a company's cash flows from operations (CFO) increase, the financial and credit health of the firm would also increase as the firm would less likely to need borrowing and cash interest expense. Contrarily, if a company's CFO declines, it would be more likely to use interest bearing debt to finance its plans and investments. **Thornton** (2008) indicated that FASB 95 requires a statement of cash flows to classify cash receipts and cash payments in accordance with the prescribe format whether they start from operating activities, investing activities, or financing activities. The provisions given by FASB are as follows on the presentation of cash flow statement are:

It provides that the cash flows statement should be prepared under either direct or indirect method and provides examples of how to use each method when preparing statements. It also provides that under the core concept, cash is stated as "cash and cash equivalents". while cash is the most liquid assets within the asset portion of a company's balance sheet including currency and bank deposit, in the other hand cash equivalents are asset that are ready to be converted into cash such as money market holding, short term government bond, bills, marketable securities and commercial paper. Other sources of investments such as stocks, bonds, futures contracts, and so forth are not considered cash.

Dickinson examines the cash flow patterns as a proxy for firm life cycle that is derived from accounting information. The researcher indicates that cash flow patterns supply a rigid and robust indicator of firm life cycle stage and allows researchers to evaluate a firm's current performance as well as

predicts its future performance according to firm's current life cycle stage. In this respect, Dickinson divides life cycle of firms into 5 phases namely introduction, growth, maturity, shake out and decline. The classification of life cycle stages are constituted by using firm's operating, investing and financing cash flows in which firm life cycle is completely separated from firm's age. The researcher uses life cycle proxy in order to assess the economic, market and accounting behavior of firms within each life cycle stage and develops a method for identifying firm life cycle using the combination of cash flow patterns.

III. OBJECTIVES

i. To introduce data about the money inflows and money surges from working, financing and contributing exercises of the firm.

ii. To demonstrate the effect of the working, financing and contributing exercises on money assets.

IV. HYPOTHESIS FORMULATION

H0: There is no critical effect of working, contributing and financing exercises.

H1: There is a critical effect of working, contributing and financing exercises.

V. RESEARCH METHODOLOGY

This investigation was led by utilizing essential and optional information with the day and age of 5 years 2012-13 to 2016-17. In this examination, for the most part auxiliary information is gathered. Auxiliary information has been acquired from the accompanying sources: yearly reports, diaries, money streams, and other related sites.

SAMPLE SELECTION: For the purpose of the study two companies Nagarjuna Fertilizers and Zuari fertilizers have been selected.

PERIOD OF STUDY: The study is conducted for a period of five (5) financial years i.e. from 2012-2013 to 2016-17.

STATISTICAL TOOLS:

The factual investigation method is chosen to break down the income explanations of the organizations understudy. There are different factual apparatuses used to break down the information. Changes in working capital, money from operations, income proclamation.

DATA ANALYSIS AND HYPOTHESIS TESTING

The data in table 1 shows the usage rate of Nagarjuna Fertilizers Company (operating, investing and financing activities). The data were used the t-test paired two sample for means (t-test) formula. As the comparison is done between 2 company's .i.e. Nagarjuna and Zuari fertilizers

Y/R	operating		investing		financing	
	NAG FER	ZUA FER	NAG FER		NAG FER	ZUA FER
2012	411.66	-1539.19	-41.1	2012	411.66	-1539.19
2013	625.68	96.7	-81.65	2013	625.68	96.7
2014	293.5	357.45	60.19	2014	293.5	357.45
2015	435.04	639.31	-38.75	2015	435.04	639.31
2016	-77.13	-404.13	-36	2016	-77.13	-404.13

Calculation of standard deviation						
Y/R	operating		investing		financing	
	NAG FER	ZUA FER	NAG FER		NAG FER	ZUA FER
2012	411.66	-1539.19	-41.1	2012	411.66	-1539.1
2013	625.68	96.7	-81.65	2013	625.68	96.7
2014	293.5	357.45	60.19	2014	293.5	357.45
2015	435.04	639.31	-38.75	2015	435.04	639.31
2016	-77.13	-404.13	-36	2016	-77.13	-404.13
SD	260.72	856.41	52.45	133.50	262.13	1092.55

Calculation of t-test for operating activities

t-Test: Paired Two Sample for Means		
	NAGARJUNA FERTILIZERS	ZUARI FERTILIZERS
Mean	337.75	-169.972
Variance	67978.7985	733453.2944
Observations	5	5
Pearson Correlation	0.143453545	
Hypothesized Mean Difference	0	
Df	4	
t Stat	1.322113752	
P(T<=t) one-tail	0.128332855	
t Critical one-tail	2.131846782	
P(T<=t) two-tail	0.256665709	
t Critical two-tail	2.776445105	

INTERPRETATION:

From the t-table, it is observed that the calculated value of t for operating activities (1.322113752) is less than the table value (2.776445105). The Hypothesis is accepted. It means that there is no Significant difference between the means of operating activities of selected companies.

Calculation of t-test for investing activities:

t-Test: Paired Two Sample for Means		
	NAGARJUNA FERTILIZERS	ZUARI FERTILIZERS
Mean	-27.466	-198.388
Variance	2751.51743	17823.62672
Observations	5	5
Pearson Correlation	0.425789789	
Hypothesized Mean Difference	0	
Df	4	
t Stat	3.161805099	
P(T<=t) one-tail	0.017062446	
t Critical one-tail	2.131846782	
P(T<=t) two-tail	0.034124892	
t Critical two-tail	2.776445105	

Calculation of t-test for investing activities

t-Test: Paired Two Sample for Means		
	NAGARJUNA FERTILIZERS	ZUARI FERTILIZERS
Mean	-320.504	365.88
Variance	68715.70323	1202433.351
Observations	5	5
Pearson Correlation	0.495334098	
Hypothesized Mean Difference	0	
Df	4	
t Stat	-1.545358157	
P(T<=t) one-tail	0.098575758	
t Critical one-tail	2.131846782	
P(T<=t) two-tail	0.197151517	
t Critical two-tail	2.776445105	

INTERPRETATION:

From the t-table, the hypothesis is rejected. It means that there is significant difference between the means of investing activities of selected companies.

INTERPRETATION:

From the t-table, it is observed that the calculated value of t for financing activities (-1.5453581) is less than the table value (2.77644). The hypothesis is accepted. It means that there is no significant Difference between the means of financing activities of selected companies.

FINDINGS:

Firstly from the table no:1 it can be seen that average of cash flow from operating activities of Nagarjuna fertilizers is higher than that of Zuari fertilizers. Theoretically higher the average, higher will the rank and vice-versa. So, a Nagarjuna fertilizer is given first rank and Zuari fertilizers are the second Rank. Secondly, In case of S.D lower the value, higher will be the rank and vice-versa.

Considering this aspect, it is observed that the S.D for all the three activities of Zuari fertilizers is more than the Nagarjuna fertilizers. So, for three activities, Zuari limited obtained first rank and Nagarjuna fertilizers obtained second rank.

HYPOTHESIS TESTING:

1. In case of operating activities, it is observed that the t-test is used. So, it can be said that the hypothesis is accepted.
2. For investing activities, it is observed that the t-test is used. So, it can be said that the hypothesis is rejected.
3. For financing activities also, it is observed that the t-test is used So, it can be said that the hypothesis is accepted.

Conclusion:

Positive cash flows from operation are necessary. if a company is to succeed over the long term. The most common pattern is a positive operating activities cash flows and negative cash flow from investing and financing activities. Companies use cash flow from operations to purchase fixed assets or to pay down debt. Growing companies prefer a positive financing activities cash flow and negative cash flow from operating and investing activities. Cash is being borrowed to cover a shortage of cash from operations as well as to purchase fixed assets.Taking everything into account, leading money related proclamation investigation utilizing data from the announcement of money streams is more troublesome than examinations utilizing data from the wage articulation and asset report. The essential reason is that it is normal for income for specific classes to be negative, along these lines making translation troublesome. By the by, an investigation of the relationship among the classifications on the announcement of money streams can give knowledge into organizations execution.

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