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ANALYSIS OF THE CASH FLOW STATEMENT WITH REFRENCE TO KOTAK MAHINDRA BANK

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Abstract:-The basic purpose of this research is to determine the relevance of the cash flow statement (CFS), also known as statement of cash flows, for analysing a company's financial statements. This has been done by means of an empirical study, showing that, in order to undertake a comprehensive analysis of the company's equity, economic and financial situation, it is essential to study and analyse the CFS. An experimental study was carried out with students taking a Business Management and Administration degree at Universitat de Vic as well as students on the Accounting and Finance course at Universitat Autònoma de Barcelona, using data from the retail company Mercadona S.A. The ensuing conclusions allow us to state that the CFS is an indispensable document when it comes to undertaking a comprehensive analysis of the company's financial statements, given that it provides very useful information concerning the company's short-term financial situation and its investment and financing activity.

Keywords: Cash flow statement, usefulness, short-term financial analysis, retail company.

I.INTRODUCTION

In financial accounting, a cash flow statement, also known as statement of cash flows or funds flow statement, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and cash out of the business. The statement captures both the current operating results and the accompanying changes in the balance sheet As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7) is the International Accounting Standard that deals with cash flow statements. People and groups interested in cash flow statements include:

- Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses
- Potential lenders or creditors, who want a clear picture of a company's ability to repay
- Potential investors, who need to judge whether the company is financially sound
- Potential employees or contractors, who need to know whether the company will be able to afford compensation
- Shareholders of the business

II.LITERATURE REVIEW

The use of Statements of Sources and Application of Funds (SSAF) by different types of users has prompted a series of studies related to the information contained in these documents. Some of these studies focus on looking into the different properties of measurements based on accrual as opposed to measurements based on cash flow criteria, basically in order to make predictions concerning future cash flows and the company's insolvency.

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Among the studies that research the preference for a particular type of variable in predicting future cash flows, it is worth highlighting the study by Bowen et al (1986), that aimed to detect which measure of cash flow of funds better predicts future cash flows within a one and two-year timeframe. They came to the conclusion, though not a definitive one, that accrual basis parameters (ordinary profit or loss adjusted by depreciations and auto-financing of operations) are better predictors than the rest. Greenberg et al (1986) compared the predictive capacity of the operating cash flow with that of ordinary income to forecast future operating cash flows and they showed that ordinary income is a better predictor than cash flow. Gaharan (1988) measured the capacity to predict future operating cash flows of three flow variables: operating working capital, monetary working capital derived from operations and operating cash flows, considering only a deferral period. The findings showed that the variable closest to profit had the greatest predictive capacity. Arnold et al (1991), among their findings, highlighted the fact that operating working capital seems to be a better predictor of operating cash flow than cash flow itself for a one to two-year time period. Pina (1992) studied whether the statistical properties of the two types of information, using cash basis or accrual basis accounting, were the same or not. He came to the conclusion that the properties of cash basis measures were different to those obtained using the accrual method and even though one cannot affirm that one method is superior to the other, the accrual accounting measures proved to have a greater predictive capacity than future cash flows. Gabas and Apellaniz (1994) concluded that the variable that best accounts for future cash flows is operating working capital. Giner and Sancho (1996) studied the utility of different parameters related to fund flows (working capital, monetary working capital and liquid assets) and confirmed that operating working capital had a greater predictive capacity, which seems to reaffirm the greater utility of the accrual method above that of cash basis accounting. From the studies that chose to look into prediction of business insolvency it is worth highlighting Beaver's (1966) groundbreaking study which draws up a univariate model and which found that working capital ratio does not provide us with decisive information and that what's more, it is not the best indicator of solvency neither in the short term nor in the long term. He worked using a series of variables such as: generated assets/ claimable liabilities; net profit or loss/ total assets; claimable liabilities + preferred stocks / total assets; working capital/ total assets; and working assets/ working liabilities. He found the best ratio to be the cash flow/total liabilities, and he stated that it was able to predict a company's bankruptcy with 79% precision. He reached the conclusion, as RodriguezVilariño (1994) pointed out, that mixed ratios (including a flow variable and a fund variable) are the ones that best predict corporate insolvency and that statistical variables provide less information than dynamic variables. Altman (1968) also carried out a study of 33 companies that had gone bankrupt which focused on prediction of company insolvency. Deakin (1972), from a multivariate approach (the combination of different ratios), selected Beaver's fourteen best ratios and subjected them to a multiple discriminant analysis. The results confirmed Beaver's own findings concerning the predictive ability of cash flow/total liabilities, both alone and in combination with other ratios. Gombola and Ketz (1983); Kochanek and Norgaard (1988); Largay and Stickey (1980) presented companies with positive net profits, positive working capital, positive operating current assets, but with highly fluctuating and clearly insufficient operating current cash flows. This went on for various consecutive years before these businesses went bankrupt. Casey and Bartzack (1984); Gentry et al (1985), in their studies analysed firm bankruptcy

2581-4575

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predictive ability. Viscione (1985) undertook an analysis of corporate bankruptcy using four ratios: liquidity, profitability, debt and turnover. Percy and Stokes (1992) analysed four variables: profit, profit plus depreciation, operating working capital and operating cash flow; there were fewer prediction errors with profit plus depreciation and operating working capital than with the other two variables; even so, when the sample was segmented these results were not repeated.

Among the studies that focused on the degree of use of these documents it is worth mentioning the empirical study by Martinez (1993) which administered a questionnaire to auditors and chartered accountants on the Statement of Changes in Financial Position. They reached the conclusion that it was a document that is complicated to draw up, difficult to interpret and used very little by most companies. Gomez Juan (1996) undertook a study of the research carried out in Spain on Fund flow statements from the period 1980-1995, and concluded that the studies undertaken during that period were more of a descriptive than an empirical nature. Rojo Ramírez (1997) carried out a study of the different guidelines issued for the CFS in various countries of the European Union. He reached the conclusion that differences exist in the definition of cash and equivalents as well as in the format; that there is a lack of homogeneity in the composition of the different fund flows as well as in the way they are calculated; and that there was consensus on including the CFS as an integral part of the AS. Ruiz Lamas et al (2006) presented a proposal on how to develop and apply in practice a method that analyses the degree of coherence of the cash flows structure classified by activity, into operating cash flow, investment and financing, with what would be a normal structure depending on the stage in the business life cycle the company finds itself in. Villacorta (2006) carried out a study of the CFS's presented by companies that drew up their AS in the year 2005 according to the IFRS and he came to the conclusion that there were differences in the terminology and that the most widely used method was the indirect method. Rojo Ramírez (2008) put forward a proposal for studying a company based on the CFS and he put forward changes in the order of certain items. Vila Bigliere (2008) carried out a study of firm bankruptcy predictive ability using a three dimensional graphic representation. Zubiarre et al (2009) studied the indirect method used in the PGC07 (General Accounting Standards) to calculate the OCF (operating cash flow), and highlighted the main difficulties that one comes across in drawing it up. He carried out a comparative study of the companies listed on the IBEX 35 during the period 2005-2007 and reached the conclusion that there were differences in the choice of initial earnings, in the presentation of changes in working capital (broken down or not), and in the separate presentation of taxes and in the collection of interest and dividends. Rodríguez-Vilariño (2009) studied the consolidated CFS of the companies Metrovacesa and Inmobiliaria Colonial, during the period 1998-2008 in order to demonstrate that corporate solvency level indicators are better than traditional ratios. They concluded that the data on cash flows was more significant for solvency that the data on generated fund flows and that it is very useful to work jointly with earnings before interest and tax, and OCF because both these dimensions have to do with the company's activity. Reig and Zorio (2012), based on a sample of companies listed on Dow Jones 30, the EuroStoxx 50 and the Ibex 35, studied their preferences in using the direct or the indirect method and their findings showed an almost absolute preference for the indirect method. They undertook an analysis of CFS that is being analysed by the FASB and the IASB in order to establish a common standard between the USGAAP and the IFRS. They concluded that globalisation demands comparability between the American standard (FAS95), the international

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standard (IAS7) and the Spanish standard (PGC07). The joint IASB and FASB project recommends using the direct method because it predicts future flows better.

III.METHODOLOGY

The basic objective of this experimental study is to demonstrate and highlight the relevance of the Cash Flow Statement as part of the analysis of accounting statements, under the premise that the analysis and study of this accounting statement significantly improves the information one can obtain concerning the company. The secondary objectives are to demonstrate this document's relevance for: - Short term financial analysis, placing emphasis on companies that have a cash collection period. More specifically, this research aims to demonstrate the CFS's relevance for companies in the retail sector that have a cash collection period, and whose negative working capital and short term solvency ratio are below one unit. - To demonstrate and outline the value of the information that this statement provides on each of the different activities that the company carries out and on the interrelationship between these activities, and to identify by looking at the cash flows of the different activities, the life cycle of a business as a CFS analysis method. We carried out an experimental study following the methodology employed in other research studies such as by Gandia and Montagud (2011)1 and Mainess and Daniel (2000)2 , with Business Management and Administration (ADE) and Accounting and Finance (CIF) students from two Catalan Universities: Universitat de Vic (UVIC) and Universitat Autònoma de Barcelona (UAB), Sabadell Campus. A pilot study was carried out in these two universities.

In order to accomplish the study's objectives we drew up two null hypotheses which this research is intended to demonstrate:

-H1: There are no significant differences between the control subgroup's results and the experimental subgroup's results in the experimental study carried out with students from different universities.

- H2: Studying the CFS does not provide one with valuable individualised information on the three activities the company carries out (operations, investment and financing) or on the degree of interrelation among them.

The students who took part in this experimental study met certain requirements:

1) They were all familiar with the basic features of financial accounting and the annual accounts in accordance with current Spanish accounting principles.

2) They were familiar with the techniques for analysing accounting statements and knew how to apply them to the company's annual accounts.

By fulfilling these requirements they were able to interpret the three documents that are presented in this study: The Balance sheet, the Profit and Loss account and the Cash Flow Statement. For the purpose of this study each group of students was divided into two subgroups: subgroup A (control subgroup) and subgroup B (experimental subgroup). Each student was randomly assigned to a subgroup. Once each group had been divided into two subgroups the students were provided with the data on the company under analysis. This study used data from the company Mercadona,S.A. corresponding to the three last financial years for which information was available (2010, 2009 and 2008), which was taken from the SABI database (Sistema de Anàlisis de Balances Ibéricos). Based on the information they received, the students filled in the same questionnaire3 , which featured a total of 12 questions. The control subgroup (Subgroup A)/ (CS) was only given the Balance sheet and the Profit and Loss Account whereas the experimental subgroup (Subgroup B)/ (ES) was given the Balance sheet, Profit and Loss Account and the Cash Flow Statement.

2581-4575
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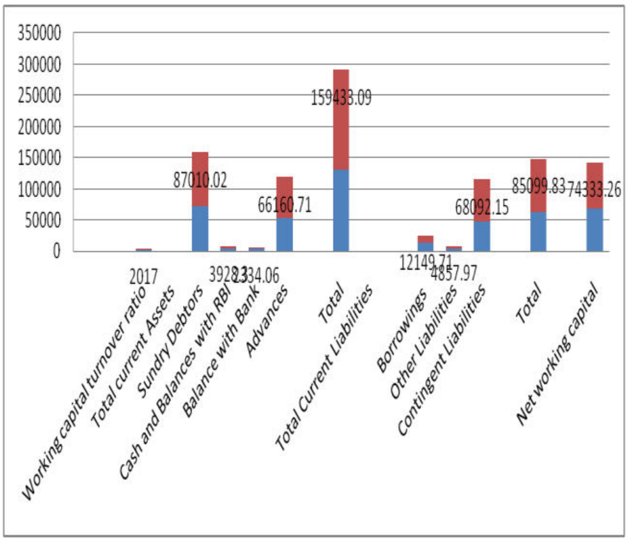
IV.DATA ANALYSIS

Working capital Of Kotak Mahindra limited

Implementing an effective working capital management system is an excellent way for many companies to improve their earnings. The two main aspects of working capital management are ratio analysis and management of individual components of working capital.

Working capital turnover ratio 2019		
Working capital turnover ratio	2018	2019
Total current Assets		
Sundry Debtors	71,967.91	87010.02
Cash and Balances with RBI	2,948.23	3928.30
Balance with Bank	3,031.66	2334.06
Advances	53,027.63	66160.71
Total	130,975.43	159433.09
Total Current Liabilities		
Borrowings	12,895.58	12149.71
Other Liabilities	3,333.82	4857.97
Contingent Liabilities	46,903.54	68092.15
Total	63132.94	85099.83
Net working capital	67,842.49	74333.26
Increase\decrease in net working capital	6490.77	



Interpretation:

The networking capital of Kotak Mahindra has been increased to 6490.77 Cr the financial position i.e. the performance of Kotak Mahindra has increased and the current assets defects its current liability.

Calculation of operating profit for the period (2018-2019)

Particulars	Amount (Cr) 2019	Amount (Cr) 2018
Net profit	1865.98	10166.83
Add: depreciation	193.00	165.18
Gross cash generated	2058.98	10332.01
Less: taxation for the year	13.58	8.69
Net cash generated	2045.40	10323.32

STATEMENT OF SOURCES AND APPLICATION OF CASH For the period (2018-19)			
Sources	Rs	Applications	Rs
Secured loans	43497.36	Increase in Gross Block	99.77
Unsecured loans	28601.61	Secured loans paid	-----
Cash from operation 74333.26	2334.06	Net increases in Working Capital	
	74433.03		74433.03

Interpretation

From the above table it is observed that the net working capital of the company shows increasing trend. The current assets of the company have increased from Rs.67842.49 to Rs.74333.26 in 2014-2015. The liability of the company showing increasing trend from Rs. 106,012.08 in 2014-2015. The net capital company stood at Rs.385.18 in 2018-2019 And it is increased to. The increasing working capital is recorded as Rs.6490.77.

It is evident from the above table that the total cash flow during the period from 2018-2019. Amount Rs.6490.77. In the total cash flow 51.40% was received from cash from operation, 35.67% received from secured loans and 42.57% was received from unsecured loans.

Regarding the application of cash 17.55% used for repayment of secured loans and 41.59% used for purchase of fixed assets and cash used for working capital constitution 40.24% respectively.

Conclusion:

It is concluded that during the period 2018-19 35.67% secured loans, 31.57% unsecured loans, 7.57% cash for operation. Increasing gross block net increasing working capital, 44.59% secured loans paid.

V.CONCLUSIONS

The 2007 Spanish General Accounting Plan (PGC07) as of the financial year commencing January first 2008 incorporated two new documents as an integral part of the annual accounts: the Statement of Changes in Equity and the Statement and the Cash flow Statement. This study's main objective was to determine the relevance of the Cash Flow Statement within the financial statements and more specifically to determine the importance of the CFS for studying a company's short term financial situation and its evolution and to demonstrate the benefits of the information this document provides separately about the company's different activities as well as the degree of interrelatedness among them. The findings of our research enable us to reach the following conclusions:

1. The Cash flow statement study and analysis is very relevant in order to carry out a complete analysis of the company's financial statements where the rest of the financial statements also play a key role

2. The CFS is the sole document of the five documents that comprise the annual accounts, which provides us with information concerning variations in cash and other liquid cash equivalents classified into three activities: operations, investment and financing.

3. In order to really find out the company's short term financial situation it is very useful to have the figures for the Cash Flows from Operating Activities (CFOA), which needs to be supplemented with the figures from the working capital and the short solvency ratio.

4. From studying the CFS one is able to obtain separate information about the company's different activities, information about the interrelationship between them and establish a relation between the business's life cycle and the sum of the cash flows from the different activities.

Consequently one can affirm that the CFS is a very relevantl document that provides added value to a complete analysis of the financial statements of a retail company with cash collection. The information provided by this accounting statement is very useful for finding out the company's real short term financial situation and complement the traditional ratios of liquidity, as well as certain aspects related to the company's investment activity and its financing. The CSF furnishes us with very valuable information for each of the company's activities (operations, investment and financing) on a separate basis and also throws light on the degree of interrelatedness between them, which enables us to know at any given time what stage in its business life cycle the company is in. The CFS provides us with very objective information (in comparison to other financial statements like the Income Statement) that is easy to understand, especially for users of accounting information who are not very familiar with accounting. The CFS adopted by the current accounting principles (PGC07), is a document that has a great deal of analytical potential which can significantly contribute to improving the analysis of a company's financial statements and the decision making process.

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2581-4575

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