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A Study on Cash Flow Analysis in Vital Pvt Ltd, Tada

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Abstract:
Cash flow statement is an important tool to analyse the cash position of a business firm. Cash flow statement reveals the causes of changes in cash position of business concern between two dates of balance sheet. According to Accounting Standard – 3 (Revised) an enterprise should prepare a cash flow statement and should present it for each period with financial statements prepared. Accounting Standard – 3 (Revised) has also given the meaning of the words cash, cash equivalent and cash flows. This study explain the importance of cash flow statement and it covers the operating, investing and financing activities of the company.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.*

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I. Introduction:

In financial accounting, a cash flow statement also known as statement of cash flows, 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 out of the business. 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 (IAS7) is the International Accounting Standard that deals with cash flow statement.

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Cash: This includes cash on hand and demand deposits with banks

Cash equivalents: This includes purely short term and highly liquid investments which are readily convertible into cash and which are subject to an insignificant risk of changes in value

Cash flows: This includes inflows and outflows of cash and cash equivalents. If the effect of transaction results in the increase of cash and its equivalents, it is called an inflow (source) and if it results in the decrease of total cash, it is known as outflow (use cash of) In financial accounting, a cash flow statement also known as statement of cash flows. It 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 out of the business. As an analytical tool, the statement of cash flow is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS7) is the International Accounting Standard that deals with cash flow statements.

According to Accounting Standard – 3 (Revised) cash flows are classified into three main categories:

1. Cash flows from operating activities
2. Cash flows from investing activities
3. Cash flows from financing activities

1. **Cash flows from operating activities:**

Operating activities are the principal revenue – producing activities of the enterprise and other activities that are not investing or financing activities. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to maintain the operating capability of the enterprise, pay dividends, repay loans and make new investments without recourse to external sources of financing.

a. Cash receipts from royalties, fees, commissions and other revenue

b. Cash receipts from the sale of goods and rendering of services
c. Cash payments to suppliers for goods and services
d. Cash payments to and on behalf of employees
e. Cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits

2.Cash flows from investing activities:
Investing activities are the acquisition and disposal of long – term assets and other investments not included in cash equivalents. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended generate future income and cash flows.
a. Cash payments to acquire fixed assets (including intangibles)
b. Cash receipts from disposal of fixed assets (including intangibles)
c. Cash payments to acquire shares, warrants or debt instruments of other enterprises and interests in joint ventures
d. Cash receipts from disposal of shares, warrants or debt instruments of other enterprises and interests in joint venture

3. Cash flows from financing activities: Financing activities are activities that result in changes in the size and composition of the owners capital (including preference share capital in the cause of a company) and borrowing of the enterprise
a. Cash proceeds from issuing shares or other similar instruments
b. Cash proceeds from issuing debentures loans, notes, bonds and other short - term or long - term borrowings
c. Cash repayments of amounts borrowed such as redemption of debentures, bonds, preference shares

II. Review of Literature:

Cash flow from investing activities to total liability ratio indicates company's ability to cover its total debt with cash. This ratio has a significant negative relationship with financial distress. (Fawzi N. S., Kamaluddin A., 2015) The authors conclude that this ratio provides a notion of a company's future liability settlement possibilities. If the ratio value is negative for a period of several years, then that means that the company's management board is investing additional resources into increasing the company's assets thus causing asset growth.

Cash flow from financing activities to total liabilities ratio measures the cash generated from financing activities to meet its obligation in the long run. (Fawzi N. S., Kamaluddin A.,2015) This ratio value is essential for financial analysis, because it shows the quality of the cashflow from financing activities.

Ross Kirkham (faculty at university of the sunshine coast, Queensland, Australia) had study on a "Liquidity Analysis Using Cash Flow Ratios and Traditional Ratios: The Telecommunications Sector in Australia" at the period in 2012. It has 25 companies and the data of 5 years which find outs similarities and differences between traditional ratios and cash flow ratios so that we can examine the value of liquid position of the corporate unit in the market. It results in that cash flow ratios are more powerful and better in the study of liquidity analysis with compare to traditional liquidity ratios and also gave a conclusion that even if there is sufficient amount of cash will be there with company, it will not show the liquid position or vice a versa. It highlights the advantages of Cash Flow ratios in interpretation of liquidity position.

Dr. Bhavsinh M. Dodiya and Kalpesh B. Gelda published a research paper in the year December, 2014 on comparative study of two banks which shows the trends of various cash flow activities i.e. operating, investing and financing activities for analysis of variation. It's one of the objective is to provide suggestions which can help to improve the cash management. In this study, T-Test was used as a statistical techniques and mean, co-efficient of variation and standard deviation as statistical tools for analysis. It concludes that HDFC is the best in investing and financing activities while SBI is best in operating activities.

Aghaei and Shakeri (2010) studied the cash flow ability and earnings accruals components in forecasting cash flow of accepted companies in Tehran Stock Exchange over the period between 2003 till 2007. The results showed that earnings, cash flow and accrual components have a predictive ability of future cash flow.

Scope of the study:

Cash flow is a financial statement that presents information about the company. The general form of the cash flow statement shows three categories, namely: Cash flow from operating activities, Cash flow from investing activities and cash flows from financing activities operating activities are the principal revenue – producing activities of the company and other activities that are not investing activities and financing activities.

Objectives of the study:

- To analyse Operational Activities of the Company
- To know Investment Activities of the company
- To study Financial Activities of the company

Research methodology:

Cash from operations=cash sales-cash purchases and cash operating expenses.

• Generally, the income analysis shows both cash and non-cash items.

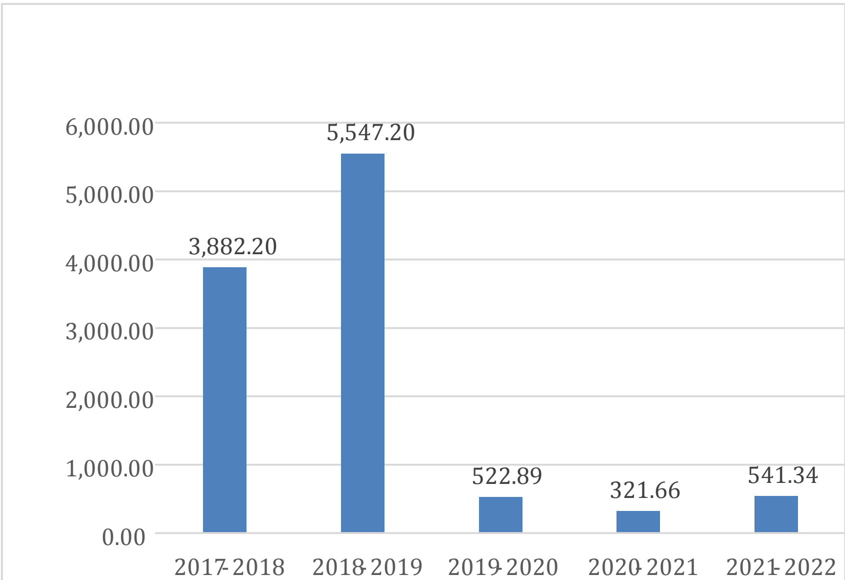
• In order to ascertain cash sales, cash purchases, and cash operating expenses based on income analysis, the items of current assets and current liabilities given in the balance sheet should also be taken into account along with items of income and expenditure shown in the income analysis. This method is also known as 'income& expenditure' method.

• Let us know how to ascertain cash sales, cash purchases and operating expenses and cash flow

Data Analysis:

1. Analysis of net cash flow from operating activities table

YEAR	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Net cash flow from operating activities	3882.20	5547.20	522.89	321.66	541.34

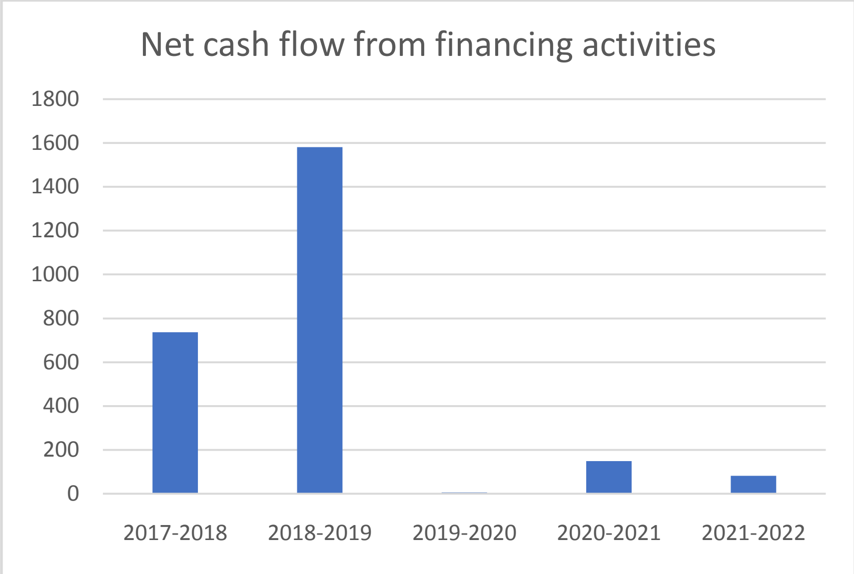


INTERPRETATION:

From the above graph the net cash flow from operating activities are in decreasing trend.

2) analysis of net cash flow from financing activities table

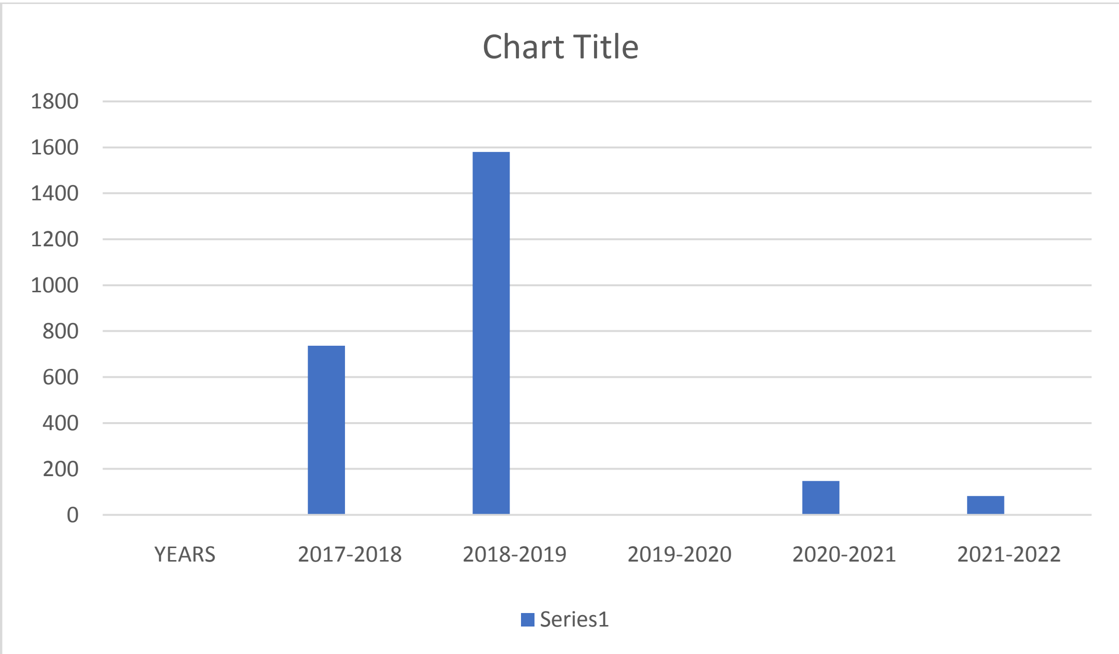
YEARS	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Net cash flow from financing activities	747.44	1,636.60	1.97	138.16	91.62



INTERPRETATION:
From the above graph the net cash flow from financing activities are in decreasing trend.

3) Analysis of net cash flow from investing activities table

YEARS	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Net cash flow from financing activities	736.44	1,580.60	1.97	148.16	81.62



INTERPRETATION:
From the above graph the cash flow from investing activities are in decreasing trend.

III. Findings:

- The operating activities are decreasing in every year and in the year 2018-19 the operating activities are increased.
- The investing activities are decreased in 2017-18 incresed in 2018-19 and in the year 2020-21 it was increased.

- The financing activities are increased in 2018-19 and in the next year it was decreased i.e., 2019-20 and in 2020-21 it was again increased.

IV. Suggestions:

- The vital paper limited should invest on the quick earning assets and investments
- Instead of allocating all profits as repayment of secured loans & payments of dividends some portion should be retained to improve cash position for financing activities
- Trading activities should be operated effectively to generate more profits
- The firm has to reduce its operating expenses in order to increase the profit.

V. Conclusion:

It can be concluded that the company overall operating activities are satisfactory when compared to investing and financing activities. The overall financial position is not satisfactory and needs to be improved further in the future.

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