

AN ANALYSIS OF CASH FLOW STATEMENT: A STUDY OF J.K.CEMENT AND BIRLA WHITE CEMENT

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Cash works as blood for a business organisation. Whether it is a small scale or big scale industry, all these required cash and without cash, no activity of firm can be run. An organisation requires cash for the purpose of production, supply, marketing, and official work. The Success of any firm is largely depending upon the cash position. Before taking any decision, a firm has to check whether it has sufficient cash amount for conducting an activity or not. This paper is an attempt to analyze the cash position of J.K.Cement and Birla Cement in order to find out their cash efficiency and research study is analytical in nature. Mean, Standard Deviation and Coefficient of Variation technique were used in order to fulfil the objective of the study. The results show that the cash flow position of Birla Cement is better than J.K.Cement.

KEYWORDS- CASH, FINANCIAL POSITION, CEMENT, OPERATING ACTIVITY, INVESTING ACTIVITY, FINANCING ACTIVITY

➤ INTRODUCTION

The investors are very much interested about knowing various facts and figures related to present financial position as well as future prospects of the organizations. Many people are directly or indirectly associated with the business concern and other persons wants to make a relationship with an organization. It is most critical decision for persons to decide whether they should keep the relation, should build stronger relation or should discontinue the existing relationship with the company. On the other hand, there are some individuals who are not presently connected with the business concern but observing and analyzing the performance of the business concern for taking a decision to form a relationship with business concern or not.¹

1. Sinha, Gokul, 2012, Financial Statement Analysis, PHI Learning Pvt. Ltd., New Delhi, ISBN- 978-81-203-4660-4, p-1

There are many techniques which help investor for making a decision and Cash Flow is one of the best analysis techniques. It is old saying that Cash works as blood for a business organisation. Whether it is small scale or big scale industry, all these required cash and without cash, no activity of firm can be run. An organisation requires cash for the purpose of manufacturing, supply, marketing and for official work also. The Cash Position can be fundamental factors for the success of any firm. Before taking any decision, a firm has to check whether it has sufficient cash amount for conducting an activity or not.

Every business organisations, shareholders and creditors want to know that from where a firm is getting cash and where it is using its cash so that they can know whether the firm has a surplus of cash or deficiency of cash. Information about the cash flow of an enterprise is very useful in providing users of business concern a basis to analyze the ability of a firm to generate cash and cash equivalent and need of firm to utilize that cash flow.

This paper is an attempt to analyze the cash position of J.K.Cement and Birla Cement in order to find out their cash efficiency.

➤ REVIEW OF LITERATURE

Dr. Bhavsinh M. Dodiya, He has done a study on “A Comparative Study on Cash Flow Statements of Tata Chemicals Ltd. and Pidilite Chemicals Ltd.”. He took two companies as a sample, first is Tata and second is PidiLite. He analyzed cash position from three activates namely operating, investing and financing. He used mean, standard deviation and co-efficient of variation technique and found that according to operating activity Pidilite company is best whereas on the basis of investing and financing TATA is best.

Amita P. Acharya, He has done a study on “A Comparative Study of Cash Flow Statements of Jay Chemical Industries Ltd. and Adhik Chemicals Pvt. Ltd.”. He took two companies as a sample, first is Jay Chemical Industries and second is Adhik Chemicals Pvt. Ltd. He analyzed cash position from three activates namely operating, investing and financing. He used mean, standard deviation and co-efficient of variation technique and found that according to operating and investing activity is Adhik Chemicals Pvt. Ltd is best whereas on the basis of financing Jay Chemical Industries Ltd is best.

➤ OBJECTIVE OF THE STUDY:

1. To make a comparative study of operating, investing and financing activities of cash flow for the study period of selected firm.

➤ RESEARCH METHODOLOGY

Research simply means to search out for knowledge and findings. It is a structured search for obtaining information on a particular problem.

● SAMPLE FOR STUDY & TYPE OF RESEARCH

The present research study is analytical in nature. The analytical research is the type of research, where the researcher has to apply the information and facts which previously existed and investigate this information for making a critical evaluation. The Random sampling method was used for taking samples for the study. J.K.Cement and Birla Cement were selected as sample for the study.

➤ DATA COLLECTION AND SCOPE OF THE STUDY

There are four firms selected for the research study and the study is restricted to those firms only and for four years only. The analysis done for the study is based on the secondary data only, as the data are taken from Annual Reports, Money Control, and moneyrediff websites were also used.

➤ TOOLS FOR THE STUDY

Mean, Standard Deviation and Coefficient of Variation technique were used in order to fulfill the objective of the study. The statistical mean is the average which is used to derive the midpoint in given the data in question². Mean is calculated by adding all the data in a population and then dividing the total by the total number. The resulting number is known as the mean or the average.³ Standard Deviation shows spreading area of data around the mean.⁴ The coefficient of variation (CV) shows the relationship between the standard deviation and means in the form of ratio, higher the value of CV, the higher level of dispersion around the mean.

➤ DATA ANALYSIS AND INTERPRETATION

The above said objective was satisfied by using mean, standard deviation and co-efficient of variation technique.

2. <https://www.quora.com/What-does-mean-tell-us-about-a-data-set>

3. <https://www.techopedia.com/definition/26136/statistical-mean>

4. <http://www.statisticshowto.com/probability-and-statistics/standard-deviation/>

The Cash Flow from three activity of J.K.Cement is as follows: (In Corers)

Activity	2017	2016	2015	2014
Operating Activity	755.05	635.37	436.42	187.38
Investing Activity	-388.67	-349.91	-457.76	-1,046.19
Financing Activity	-315.88	-217.30	81.49	873.91

Source: Moneycontrol.com and Annual Report of J.K.Cement

By analyzing the above table, it was found that Cash flow from operating activity is showing an increasing trend from the year 2014 to 2017 as it was 187.38 crore in the year 2014 and reached to 755.05 in the year 2017, which shows that firm is earning from its main business activity. On the other hand Investing and Financing activity are showing a negative cash flow in the year 2017 and 2016 whereas it was positive in the year 2014 and 2015.

The Cash Flow from three activity of Birla Cement is as follows: (In Corers)

Activity	2017	2016	2015	2014
Operating Activity	4993.46	4525.51	4190.18	3461.87
Investing Activity	-2468.50	-3726.71	-2058.40	-2403.39
Financing Activity	-2534.99	-844.02	-2109.82	-948.80

Source: Moneycontrol.com and Annual Report of Birla Cement

By analyzing the above table, it was found that Cash flow from operating activity is showing an increasing trend from the year 2014 to 2017 as it was 3461.87 crore in the year 2014 and reached to 4993.46 crore in the year 2017, it implies that firm is earning in effective way from its main activity. On the other hand, during the study period, cash flow from Investing and Financing activity are showing negative value which implies that firm is investing much amount of cash in purchase of fixed assets and paying high dividend and interest.

Company Name	AVERAGE OPERATING CASH FLOW	RANK	STANDARD DEVIATION	RANK	CO-VARIANCE	RANK
J.K.Cement	503.55	2	248.39	1	.4932	2
Birla Cement	4292.755	1	644.4775	2	.15	1

By analyzing the above table, it was found that average operating cash flow of Birla Cement is higher than J.K.Cement and got 1 and 2 rank respectively. Standard Deviation of J.K.Cement is lower than Birla Cement and got 1 and 2 rank respectively. Coefficient of Variation of Birla Cement is lower than J.K.Cement and got 1 and 2 rank respectively.

Company Name	AVERAGE INVESTING CASH FLOW	RANK	STANDARD DEVIATION	RANK	CO-VARIANCE	RANK
J.K.Cement	-560.633	2	326.7639	1	-1.01	1
Birla Cement	-2664.25	1	730.8081	2	-.27	2

By analyzing the above table, it was found that average cash flow from investing activity of Birla Cement is higher than J.K.Cement and got 1 and 2 rank respectively. Standard Deviation of J.K.Cement is lower than and got 1 and 2 rank respectively. Coefficient of Variation of J.K.Cement is lower than Birla Cement and got 1 and 2 rank respectively.

Company Name	AVERAGE FINANCING CASH FLOW	RANK	STANDARD DEVIATION	RANK	CO-VARIANCE	RANK
J.K.Cement	105.555	1	539.3797	1	5.10	1
Birla Cement	-1609.41	2	842.4836	2	-.52	2

By analyzing the above table, it was found that average cash flow from financing activity of J.K.Cement is higher than Birla Cement and got 1 and 2 rank respectively. Standard Deviation of J.K.Cement is lower than Birla Cement and got 1 and 2 rank respectively. Coefficient of Variation of J.K.Cement is lower than Birla Cement and got 1 and 2 rank respectively.

➤ CONCLUSION

The cash position of both the company can be analyzed with the help of various techniques like accounting and statistics. All these techniques have their own certain limitations and merits. For making conclusion statistical technique was also applied other than accounting analysis.

With the help of cash flow statement, trend and measurement of three activities (Operating, Investing and Financing) was done for evaluation purpose and these activities were compared with statistical techniques. Average was calculated of different cash flow activities for each company for given period of time and on the basis of average ranks were allotted. Theoretically higher the average, lower the rank. But it is not sufficient to fulfill the purpose, so that standard deviation was calculated and on the basis of result ranks were given. Theoretically higher the standard deviation, lower the rank and vice versa. In order to analyze the consistency level of each activity for each company co-efficient of variation was calculated and ranks are given accordingly. Theoretically higher the co-efficient, lower the consistency.

The Result is as follows-

Average

1. Higher the average and lower the rank.
2. For Operating and financing Activity, average of Birla Cement is higher than J.K.Cement, so Birla cement was given first rank.
3. For investing activity average of J.K.Cement is higher than Birla cement, so J.K.Cement was given first rank.

Standard Deviation:

1. Higher the Standard Deviation, lower the rank and vice versa.
2. For operating, investing and financing activities, Standard Deviation of J.K.Cement is less than Birla Cement, as it is lower in J.K.Cement, so it is given 1st rank and Birla Cement is given 2nd rank.

Co-efficient of Variation

1. Accordingly, higher the coefficient variation, lower the rank and vice a versa.
2. For operating and financing activity, coefficient of variation of Birla Cement is lower than J.K.Cement, so it is given rank 1.
3. For investing activity, co-efficient of variation of Birla Cement is higher than J.K.Cement as it is given 2nd rank.

Overall Result

LEVEL	OPERATING ACTIVITY	INVESTING ACTIVITY	FINANCING ACTIVITY
BEST	Birla Cement	J.K.Cement	Birla Cement
POOR	J.K.Cement	Birla Cement	J.K.Cement

With the above result, it can be concluded that cash flow position of Birla Cement is better than J.K.Cement.

➤ LIMITATIONS OF THE STUDY:-

1. This study is completely based on the published annual reports of selected company and websites like moneycontrol.com. The Analysis was done on basis of these data. So it can be reliable to that extent.
2. It is not possible to use various statically tools.
3. The study is purely based on secondary data and secondary data has its own pros and cons.
4. The research study is restricted to two selected company only.

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