

A Study on Cash Flow Statement Towards Groma Infrastructure Limited Hyderabad

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Abstract: In the developing world the many firms which has been opened but there are only few firms which is able to with stand. Few firms has more assets and less cash and vice versa (i.e, the working capital will be in a good position) but they will not be able to pay the tax, repay the depth and soon, due to fact that the cash at hands or liquid assets will not be available forth at firm. So, to avoid this situation the cash flow system is introduced which gives the idea of how to use the working capital in such a way so that the firm will not meet with the in adequacy of the cash. Based on the cash flow statement a firm can forecast it's profit for the forth coming periods (days, months and next year). This research paper concludes that the cash flow statement is not similar to the income statement but it can be used as a source for computing the cash flow statement.

Keywords: Cash flow, Liquid Assets, Forecasting the profit, Assets and shareholder etc.

I. INTRODUCTION

The cash flow is also known as Statement of Accounting for Variation in Cash and Secondary Data. The cash flow statement studies about to the movement of the working capital funds (includes cash and noncash things like assets, liability, etc) like cash inflow (income of the cash) and cash out flow (usage of the money).

The cash flow statement is based on the funds but not in a deeper manner as compared to funds flow statement. Thus, the cash flow statement gives the overall picture of the financial position of the firm based on the cash like cash owed to pay for creditors, bank loan, taxes and dividend for shares, etc and revenue of the firm. The cash flow statement is applicable for the short term financial planning and it is void in the long term financial planning. The concept of cash basis accounting is applied in the cash flow statement. The cash flow statement can be prepared based on the balance sheet of the starting and ending period, the income statement and some additional data which includes the transactions which is not included in the books.

From a financial point of view a firm basically generates cash and spends cash. It generates cash when it issues securities, raises bank loans, sells products, disposes an asset, and so on forth. It spends cash when it redeems securities, pays interest and dividend. Purchase material, acquires an asset etc. The activities that generate cash are called sources of cash and the activities that absorb cash are called uses of cash. The ratio analysis is one of the most powerful tools of financial analysis. It is used as a device to analyze and interpret the financial health of enterprise. With the help of ratios that the financial statement can be analyzed more clearly and decisions made from such analysis. Financial analysis is the process of identifying the financial strengths and weakness of the firm properly establishing relationship between the items of balance sheet and the profit and loss account. There are various methods or techniques used in analyzing financial statements. By the use of ratio analysis one can measure the financial condition of a firm and can point out whether the conditions is strong, good, questionable or poor. Analysis and of financial statement with the help of ratio is termed as ratio analysis.

An examination of a company's cash inflows and out flows during a specific period the analysis begins with a starting and generates ending balance after accounting for all cash receipts and paid expenses during the period expenses during the period. The cash flow analysis financial reporting purpose. Before getting into the nuts and bolts of a statement of cash flow, let's take a brief look at how this document has evolved over the years.

Originally, businesses were required to file a statement of changes in financial position, or funds statement. The funds statement went through several years of development before it was widely used. In 1961, Accounting Research Study No. 2, sponsored by the American Institute of Certified Public Accountants (AICPA), recommended that a funds statement be included with the income statement and balance sheet in annual report to shareholders. Two years later, Accounting Principles Board (APB) Opinion No.3 was issued and provided funds statement preparation guidelines. Although Option No.3 did not go so far as to make the funds statement mandatory, most businesses, aware of the statement's value, included it in their annual reports anyway. Finally in 1971, APB Option No. 19 officially made the funds statement one of the three primary financial documents required in annual reports to shareholders. The APB also said a fund statement must be covered by the auditor's report. Because Option No.

19 didn't specify a particular format for the funds statement, businesses still enjoyed considerable flexibility in how they chose to report their funds flow information.

That flexibility came to an end late 1987, with the Financial Accounting Standards Boards (FASB) issuance of Statement No. 95, which called for a statement of cash flows to replace the more general funds statement. Additionally, the FASB, in an effort to help investors and creditors better predict future cash flow, specified a universal statement format that highlighted. Cash flow from operating investing, and financing activities. This format is still used today.

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.

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.

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.

Gort and Klepper defines the life cycle stages as introductory stage-where an innovation is first produced, growth stage-where the number of producers increases dramatically, maturity stage- where the number of producers reaches a maximum, shake out stage-where the number of producers begins to decline and decline stage in which there is nearly zero net entry. Inspired by Gort and Klepper's definition of life cycles, Dickinson demonstrates that in the introduction stage, net operating cash flows are negative since firms are initially learning their cost structures and operating environments. Investing cash flows are also negative because of managerial optimism that investment opportunities are growing. In this stage financing cash flows are expected to be positive since they borrow from creditors or issue stock. In the growth stage, operating cash flows would be positive since firm's main purpose is to maximize their profit margins.

Aghdas Jafari Motlagh, (2013) According to him in his study he studies about how statement of cash flow is prepared and how it is differentiated from funds flow statement. The study used the secondary data collected from various websites, journals, etc. The found that funds flow statement is not useful in short term financial planning like cash flow statement because the cash is more important for execute the plan in short run as compared to working capital.

Thomas Zeeker and Brian Stanko, (1990's) This research paper studies about whether the cash flow ratio is useful for the financial ratio analysis of retail sellers. The study used the primary data to conduct this research. The study found that the cash flow statement for retail sellers is useful to find out the financial ratios and it is also found that not only based the accrual basis of accounting, the new and traditional accounting methods should be implemented to assess the economic status or financial position of retail firm.

Ajay Paliwal, Mukesh Ahirrao and Rana, (2015) According to him, the term cash flow statement is an important tool to analyse the financial performance of a firm and the cash flow changes can be identified only by comparing the financial position of a firm for two years. The study found the net changes in net cash in cash and its distribution in three business activities and also found the strength and weakness in cash flow statement.

Jeffrey Hales and Steven Orpurt, (2013) According to them they analysed that though many financial statement user have given more importance to direct method, some of the financial statement users have given importance to indirect method of cash flow statement. They found that the direct method information is economically significant and that the recurring benefits that many firms derive from providing direct method in formation likely exceed recurring cost.

In 1978 FASB declared that financial reporting should focus on earnings rather than cash flows. However, because of increase in business failures and high interest rates, a debate started regarding the usefulness of accrual accounting numbers versus cash flow data. In this respect, Bowen et al. examine whether cash flow data has information content in explaining stock prices and whether accruals has incremental value relevance above cash flow numbers. They define earnings and working capital from operations (WCFO) as accrual based measures and cash flow from operations as a cash flow measure. The study uses market model to examine expected return in the event period that covers the release date of financial statements to the public. They also use regression analysis to examine the incremental information content of independent variables where unexpected return is regressed on unexpected WCFO, unexpected earnings and unexpected CFO. The regression results show a significant relation between earnings and unexpected returns, while no evidence is observed for the incremental explanatory power of WCFO above

information content of earnings. On the contrary, the outcomes reveal that unexpected CFO contains incremental value relevant information above unexpected earnings.

To examine the information content of accruals and cash flows Bernard and Stober decompose earnings as CFO, current accruals, WCFO and noncurrent accruals, where current accruals contain increases in inventories and receivables, decreases in payables, while noncurrent accruals contain depreciation and deferred income taxes. They replicate Wilson's study and employ regression analysis, where abnormal return is regressed on unexpected CFO, unexpected current accruals and unexpected noncurrent accruals.

Black investigates the value relevance of earnings, operating, financing and investing cash flows in four different life cycle stages namely start up, growth, maturity and decline stage. He demonstrates the differences between life cycle stages by using the firm value definition of Myers, who divides firm value into two components: assets in place and growth opportunities. According to Myers, in early life cycle stages, growth opportunities are a larger component of firm value, whereas in later stages assets in place become the largest component. As a result Black observes that, at least one of the components in cash flow statements (operating, financing and investing) is useful in explaining stock returns in each firm life cycle stage. The researcher further demonstrates that, the value relevance of a particular cash flow component depends on the life cycle stage of the firm.

III. RESEARCH METHODOLOGY

Objectives of The Study

- The main objective of the study is to present information regarding inflow and outflow of cash.
- To comparing various items of the current year with those of last year.
- To show the impact of cash on profitability.

Statement of The Problem

By studying cash flow statements, one can come to know about the capacity of the organizations to generate cash and cash equivalents. It helps the users in comparing the present value of the future cash flows of the different organizations. It removes the effect of using different accounting treatments and events. In this way, it improves the comparison reporting about operating performance. To know about the amount, timing and surety of future cash flows, historical information about cash flow is used. It is also helpful in checking the correctness of the past judgments of the future cash flows. There is gap between cash inflow and cash outflow the current study mainly focuses on problem of determining the relationship between cash flow and profitability and the effect of inflation.

Cash flow statements are provided with the other financial statements are provided the annual reports of the companies. The information provided in these statements helps the users

- To find out the changes in net assets of an organization.
- To find out the changes in the financial structure of an organization.
- To find out the liquidity and solvency position of an organization.
- To know about to make changes in time.

Significance of the Study

- Cash flow statement it explains the nature of the financial events, which has affected the cash position and the reason for the difference between opening and closing cash balance.
- It place very important in financial planning.
- This statement brings into sharp focus on the enterprise's earning capacity with its spending and operating activity.
- Cash flow statement provides an insight into the critical areas of financial management by identifying two important classes of the cash flows i.e cash inflows and cash out flows.

Research Design:

A descriptive research is followed in this current study ...

A descriptive study is one in which information is collected without changing the environment (i.e. nothing is manipulated). It is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The methods involved range from the survey which describes the status quo, the correlation between variables, to developmental studies which seek to determine changes over time.

Period of Study:

The current study (cash flow statement) covers company's five years of data in the period between 2013-18.

Tools of the Study:

In this cash flow statement we use some of the tools those are like

1. Cash Ratio
2. Liquidity Ratios
2. A Current Ratio
2. b. Quick Ratio

3. Cash Conversion Period

4. Free cash Flow.

1. Cash Ratio:

It is the ratio. It shows the relationship between and company's total cash and cash equivalents to its current liabilities.

$$\text{Cash Ratio} = \frac{\text{Cash equivalents}}{\text{current liabilities}}$$

2. Liquidity Ratio:

This ratio expresses a company's ability to repay short-term commitments and its dues at in time or not. Like taxes, wages and etc.

2.a. Current Ratio :

It is the relationship between the current assets and current liabilities. By using of this ratio we can know the firms short term solvency position. If a firm is going to maintain 2:1 (current assets and liabilities) then it is to be considered as good.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

2.b. Quick Ratio :

Quick ratio is talk about how quickly a firm is going convert his current assets into cash with in a one accounting period of time.

$$\text{Quick Ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current Liabilities}}$$

Or

$$\text{Quick ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\text{Quick Assets} = \frac{\text{Current Assets}}{\text{Stock} + \text{Prepaid expenses}}$$

3. Cash Conversion Cycle :

It talks about the how many times investment is used for purchasing inventory and as well as inventory into cash.

$$\text{Cash Conversion Cycle} = \text{DIO} + \text{DSO} - \text{DPO}$$

Where

DIO = Days Inventory Outstanding

DSO = Days Sales Outstanding

DPO = Days Payable Outstanding.

$$\text{DIO} = \frac{\text{Inventory}}{\text{Cost of sales}} * 100$$

$$\text{DSO} = \frac{\text{Accounts receivables}}{\text{Net credit sales}} * 100$$

$$\text{DPO} = \frac{\text{Accounts receivables}}{\text{Cost of sales}} * 100$$

4. Free Cash Flow :

It discuss the how much cash is left over from operations after a company pays for its capital expenditure (additions to property, plant and equipment) there can be variations of this calculations. Free Cash Flow = Cash Flow Provided by Operating Activities - Capital Expenditure.

IV. DATA ANALYSIS & INTERPRETATION

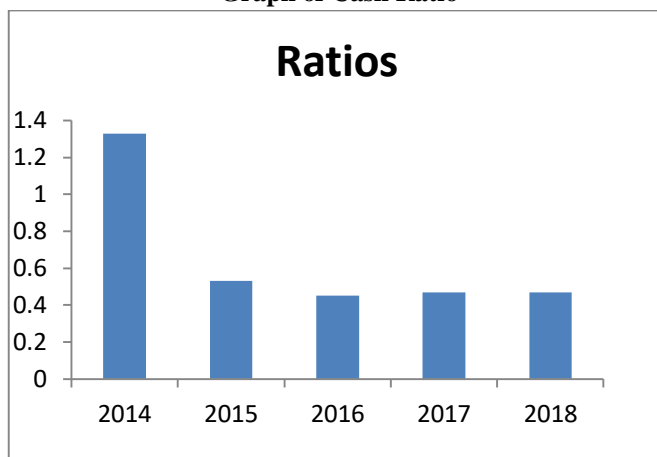
Cash Ratio:

$$\text{Cash Ratio} = \frac{\text{Cash equivalents}}{\text{current liabilities}}$$

Years	Cash equivalents	Current Liabilities	Ratio
2014	8,33,44,150	6,28,42,990	1.32
2015	8,15,19,512	15,42,62,726	0.52
2016	9,64,08,260	21,52,35,017	0.44
2017	15,81,05,719	33,84,14,753	0.46
2018	18,38,70,816	39,23,98,172	0.46

Source: Compiled From The Annual Reports Of Groma Infrastructure Limited, Hyderabad.

Graph of Cash Ratio



Interpretation:

From the above table it is observed that the Cash Ratio is decreased by year by year. It is absolved that cash ratio is increasing in the year 2014 (1.32). And it is lowest in the year 2016. There is no change of cash ratio in the year 2017 - 18 (0.46).

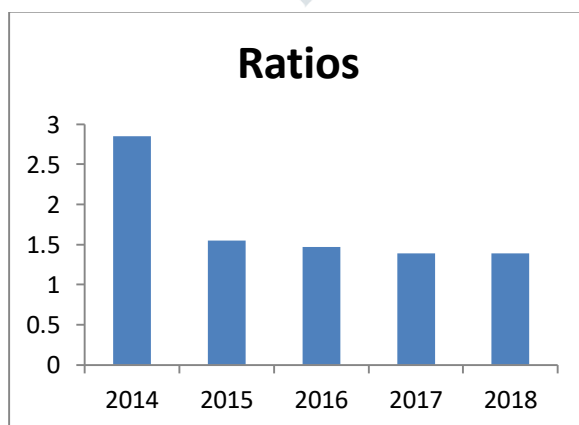
Liquidity Ratios:

2.a . Current Ratio

$$\text{Cash Ratio} = \frac{\text{Cash equivalents}}{\text{current liabilities}}$$

Year	Current Assets	Current Liabilities	Ratio
2014	17,89,80,845	6,28,42,990	2.85
2015	23,98,02,289	15,42,62,726	1.55
2016	31,67,61,296	21,52,35,017	1.47
2017	47,00,14,306	33,84,14,753	1.39
2018	54,74,59,245	39,23,98,172	1.39

Graph of Current Ratio



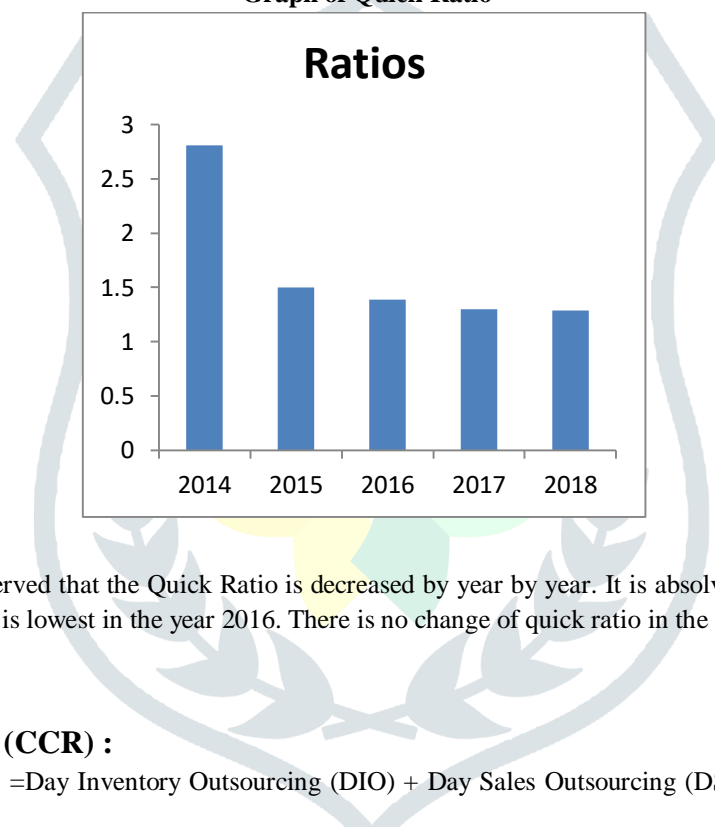
Interpretatio :

From the above table it is observed that the Current Ratio is decreased by year by year. It is absolved that current ratio is increasing in the year 2014 (2.85). And it is lowest in the year 2016. There is no change of current ratio in the year 2017 - 18 (1.39).

2.b Quick Ratio:

$$\text{Quick ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Year	Current Assets	Inventory	Current Liabilities	Ratios
2014	17,89,80,845	25,64,525	6,28,42,990	2.81
2015	23,98,02,289	76,24,522	15,42,62,726	1.50
2016	31,67,61,296	1,62,37,580	21,52,35,017	1.39
2017	47,00,14,306	2,90,48,575	33,84,14,753	1.30
2018	54,74,59,245	4,51,40,315	39,23,98,172	1.3

Graph of Quick Ratio**Interpretation :**

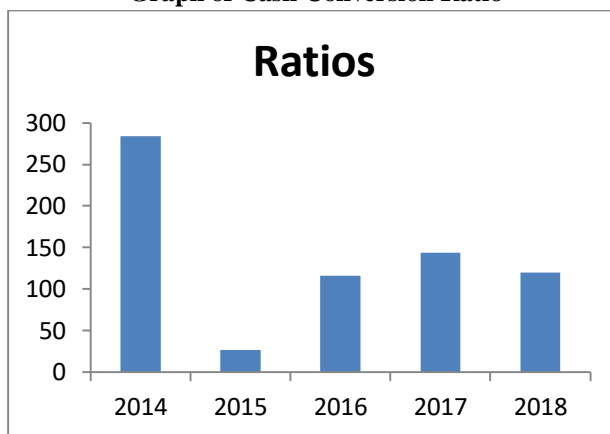
From the above table it is observed that the Quick Ratio is decreased by year by year. It is absolved that quick ratio is increasing in the year 2014 (2.81). And it is lowest in the year 2016. There is no change of quick ratio in the year 2017 - 18 (1.28).

Cash Conversion Ratio (CCR) :

Cash Conversion Ratio (CCR) = Day Inventory Outsourcing (DIO) + Day Sales Outsourcing (DSO) – Day Payable Outsourcing (DPO)

Year	DIO	DSO	DPO	CCR
2014	2.93	365	84.24	283.69
2015	5.93	365	344.35	26.59
2016	9.33	365	258.21	116.12
2017	13.95	365	234.99	143.96
2018	19.23	365	264.03	120.2

Graph of Cash Conversion Ratio



Interpretation:

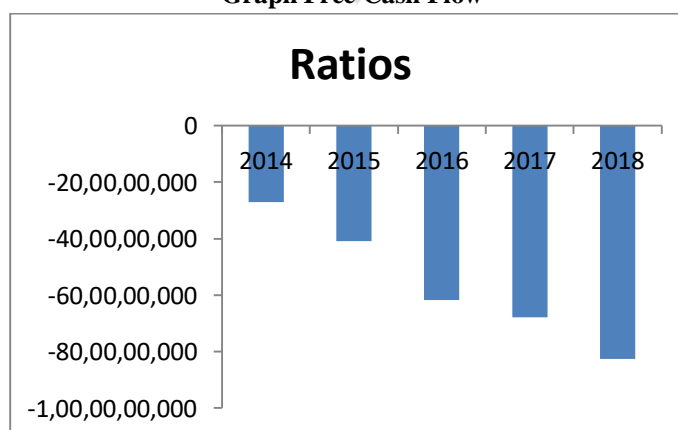
From the above table it is observed that the Cash Conversion Cycle Ratio is decreased by year by year. It is absolved that cash conversion ratio is increasing in the year 2014 (283.69). And it is lowest in the year 2016. There is no change of cash conversion ratio the year 2017 - 18 (120.2).

Free Cash Flow

Free Cash Flow = Cash Provided By Operating Activities - Capital Expenditure

Year	Cash Provided By Operating Activities	Capital Expenditure	Ratios
2014	4,85,44,070	31,78,66,762	-269,322,692
2015	5,98,22,389	46,83,69,251	-408,546,862
2016	1,68,80,398	63,49,46,756	-618,066,358
2017	8,06,70,530	75,99,64,578	-679,294,048
2018	3,20,31,679	85,67,24,535	-824,692,856

Graph Free Cash Flow



Interpretation:

From the above table it is observed that the Free Cash Flow is shows negative value.

V. FINDINGS

- During the study (cash ratio) I find out that the Cash Ratio was is increasing and year -by - year it was decreasing due to decreasing of Current Assets.
- The Current Assets are less during the study period to the firm can not able to meet the Standard Ratio of current ratio i.e. 2:1.
- Quick Ratio is also decreases because current assets are to be decreased by year - by -year.
- Cash Conversion Ratio in the year 2015 is very less because the firm is not able to Day Payable Outsourcing (DPO) is very less.
- In the Free Cash Flow table it is shows the negative values.

VI. CONCLUSION

The study clearly shows by analyzing company's Five years Financial Statements, the Cash Flow Statement is prepared for the five years I.e. 2013 - 14, 2014-15, 2015 - 16, 2016 - 17, 2018 - 19. By analyzing the Cash Flow Statements we can say that the company has maintaining good cash and cash equivalents expected in the financial position of the firm is good.

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