CASH FLOW STATEMENT ANALYSIS

Dr. Ch. Hymavathi, Associate Professor, Department of Management Studies, VFSTR, deemed to be University, Vadlamudi, Guntur, Andhra Pradesh.

K.Naga Nikhila, BBA Student, Department of management Studies, VFSTR, deemed to be University, Vadlamudi, Guntur, Andhra Pradesh.

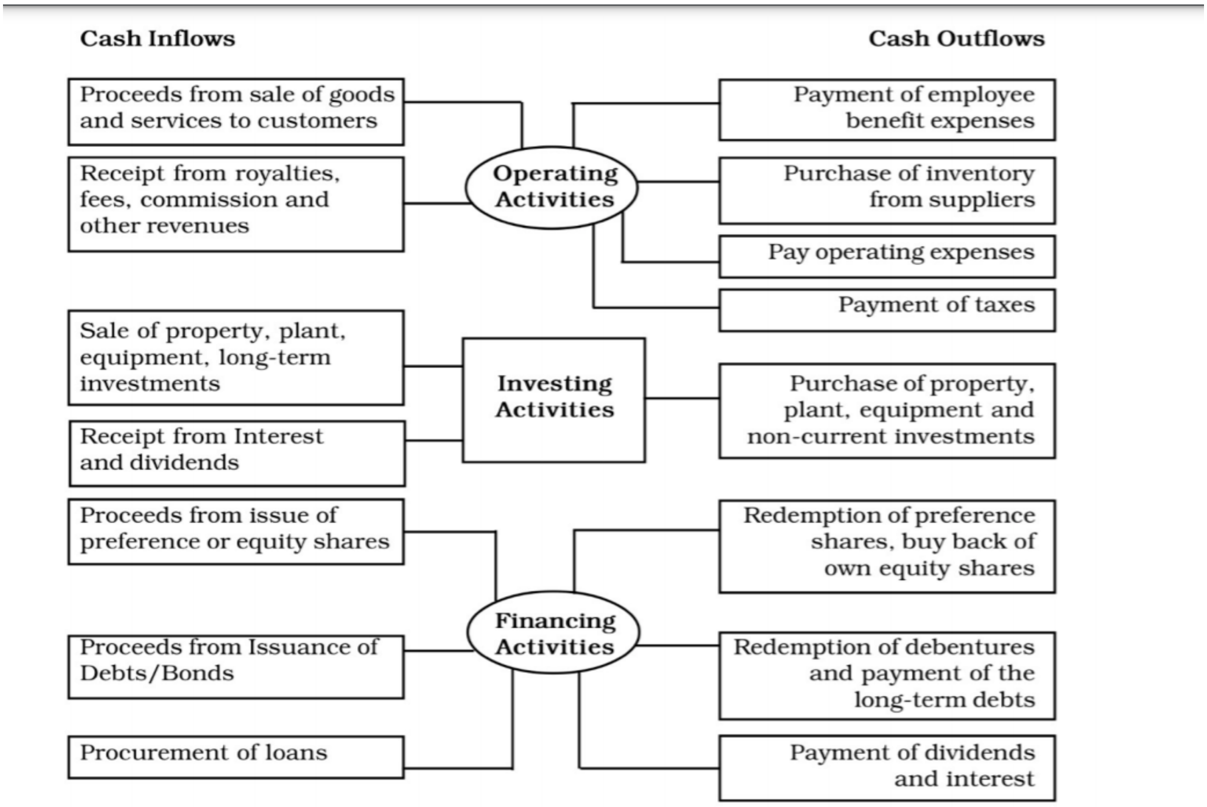
ABSTRACT

There are many businesses that have opened in the developing world, but only a handful are able to survive. Few businesses have more assets than cash and vice versa (i.e., their working capital will be in good shape), but they will be unable to pay the tax or settle loans. Depth, and so on, given the fact that the firm's cash on hand or liquid assets would be inaccessible. As a result,So, in order to prevent this scenario, the cash flow system is introduced, which describes how to use working capital in such a way that the company does not run out of cash. A company will estimate its earnings for the coming periods (days, months, and next year) using the cash flow statement. The cash flow statement, as per this research report, is not the same as the income statement.The cash flow report is important because it informs the reader of the business cash position. It needs cash to pay its expenses, to pay bank loans, to pay taxes and to purchase new assets. A cash flow report determines whether a business has enough cash to do exactly this.

KEYWORDS: cash flow, liquid assets, forecasting the profit.

Introduction:

The cash flow statement is also known as the Statement of Accounting for Cash and Secondary Data Variation. The cash flow statement examines the movement of working capital funds (which includes both cash and non-cash items such as assets, liabilities, and so on) such as cash inflow (Income oftheCompany).Cashinflows and outflows (usage of the money).



The cash flow statement is focused on money, but not to the extent that the funds flow statement is. Thus, the cash flow statement depicts the firm's overall financial status based on cash, such as cash owed to creditors, bank loans, taxes, and so on.Dividends on shares, etc., as well as the firm's sales. In the short term, the cash flow statement is important.The cash flow statement is useful for short-term financial planning, but it is useless for long-term planning. The cash flow statement employs the cash base accounting principle. The cash flow statement can be generated using the following information.The beginning and ending balance sheets, the income statement, and any supplementary informationwhich includes all of the transactions which is not included in the books.According to the Revised Accounting Standard-3 the cash flow statement can be prepared from three steps, they are

1.)Operating (revenue generating) activity,
2.)Investing (payment for purchase and the income for the sale of the fixed asset) activity and
3.)Financing activity (changes in size and composition of the equity and the borrowings of the owner).

The cash flow statement explains about the changes in these three activities. Among many financial statement, the cash flow statement is considered as a standard one. The liquidity of the firm can be identified with the help of this statement. According to Generally Accepted Accounting Principles says that "The most important aim of Cash Flow Statement is give the relevant data for receipts and payments for the cash which is used". The adjustments like expenditure and income included in the operating activity are just incurred but not paid or received. According to Australian Accounting Standards Board "The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation". If an outsider invest his/her share in a firm they focus on the flow of the cash not on the stocks in that firm, therefore cash plays an major role in a firm. Hence the flow of the cash is clearly defined by this statement.

There are two methods to prepare the cash flow statement

i) Direct method and

ii) Indirect method.

Direct Method:

Both direct income and expenses are included in the direct form. The cash flow statement is calculated using the direct method by subtracting cash revenue from cash expenditures. Each income statement is translated directly to a cash basis in the direct process, and each impact is calculated separately.Once the cash inflow and outflow from operating activities are measured, they are added to the cash flow statement's "Operating Operation" column to obtain the net cash flow for a company's operating activity.

Format for estimating Net Cash flows from Operating Activities
(Direct Method) :

Particulars	*Amount (Rs)*	Amount (Rs)
Cash sales	…	
Cash receipts from customers	…	
Cash paid to suppliers	…	
Cash paid to employees	(…)	
Cash paid to expenses	(…)	
Cash generated from operations	…	
Income – tax paid	(…)	
Cash flows before extra-ordinary items	…	
Proceeds from earthquake disaster settlement	…	
Net cash from operating activities		…

INDIRECT METHOD:

The accrual basis net income is defined first in the indirect/add back approach for measuring cash flow. This net income is then implicitly adjusted for non-cash expenses that had an effect on the declared net income. The indirect approach accounts for the following in calculating net income:

i)Changes in current assets,

ii)Changes in current liabilities, and things that have changed in valueincorporated into thenet income but did not affect cash.

Format for estimating Net Cash flows from Operating Activities

(Indirect Method):

Net Profit before taxation and extra-ordinary items	...	
Adjustments for:		
Depreciation	…	
Loss on Sale of Assets	…	
Foreign Exchange Loss	…	
Profit on Sale of Assets	(…)	
Interest Expense	…	
Income from Investments	(…)	
Operating Profit before Working Capital Changes	…	
Increase in Current Assets	(…)	
Decrease in Current Assets	…	
Increase in Current liabilities	…	
Decrease in Current liabilities	(…)	
Cash Generated from Operations	…	
Income-tax Paid	(…)	
Cash Flows before Extra-ordinary Items	…	
Proceeds from Earthquake Disaster Settlement	…	
Net Cash from Operating Activities		...

REVIEW OF LITERATURE:

1.) Aghdas Jafari Motlagh, (2013)4 "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.

2.) Thomas Zeeker and Brian Stanko, (1990's)5 "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.

3.) Ajay Paliwal, Mukesh Ahirrao and Rana, (2015)6 "According to him, the term cash flow statement is an important tool to analyze 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 it's distribution in three business activities and also found the strength and weakness in cash flow statement.

4.) Jeffrey Hales and Steven Orpurt, (2013)7 "According to them they analyzed that though many financial statement users 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 information likely exceed recurring cost.

RESEARCH METHODOLOGY:

This research paper adopts the descriptive method of study, where it has the cashflow statement in Jet Airways for the term of three years from 2017 to 2019. The research was conducted by using the secondary data collected from various websites, articles, journals, books, etc.

OBJECTIVE:

- To study about the statement of cash flow in Jet Airways.
- To know about the financial performance in Jet Airways.

NEED:

The cash flow report is important because it informs the reader of the business cash position. It needs cash to pay its expenses, to pay bank loans, to pay taxes and to purchase new assets. A cash flow report determines whether a business has enough cash to do exactly this.

IMPORTANCE:

The cash flow statement is useful in terms of giving the overall idea about how much cash is received or earned due to financing activities and how much profit is gained from various capital investment activity.

LIMITATIONS:

- The researcher was not able to do the ground work.
- The research is only to study the cash flow statement and not the financial position of Jet Airways.

SERVICES:

- It provides services such as airport lounges, bus services, coach services, complimentary chauffeur drive services.
- It has created Jetkids, programme for kids between 2 years to 12 years that offers gift and offers while there are travelling in airplanes. It also offers services like Jetmobile, JetEscapes, Cargo, etc.
- Jet Airways provides services such car rentals, hotels, conversion services, retails services, telecommunications, etc.
- To provide these services it has partnered with various companies such as Air France, American Airlines, Citi, HDFC Bank, ICICI Bank, HSBC, Hyatt, Hilton Hotels, The Leela, Marriott, Oberoi Hotels & Resorts, The Park, Ferns n Petals, matrix, are amongst others.

DATA ANALYSIS

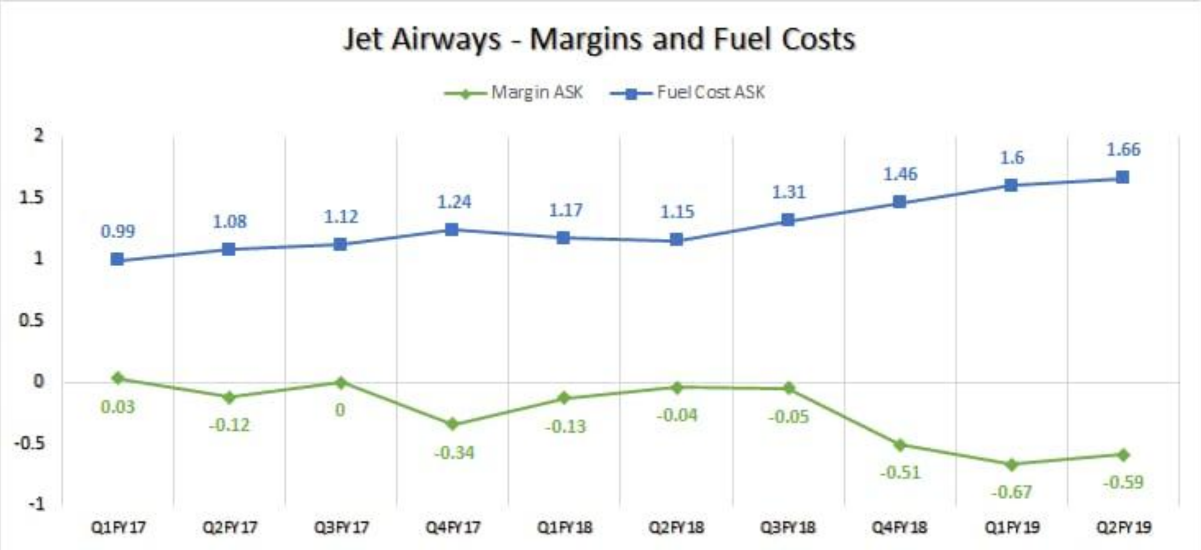
Financial Performance of the company:

The financial performance of a company can be determined by the financial statement. The financial statement is of three types

i) Income statement
ii) Balance sheet and
iii) Cash flow statement.

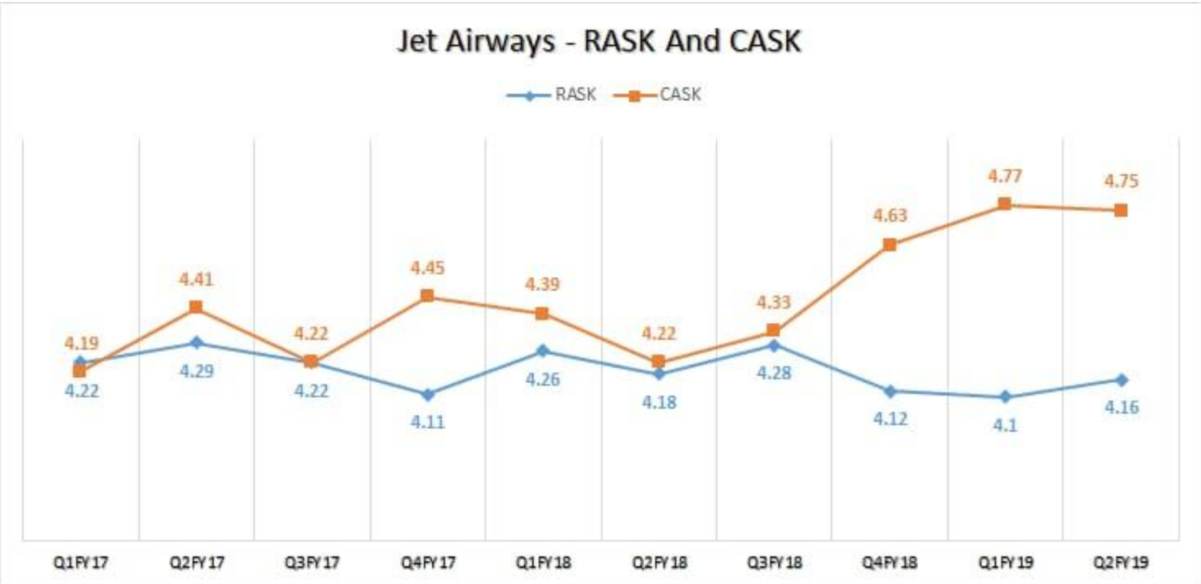
i. **Income Statement:**

Jet Airways was facing loss for the past two years (not including the profit after tax, depreciation for the assets, interest, etc.) i.e, the operating profit for the company in the year 2019is -115.95 and for the year 2018 it is -1,484.65 and for the year 2017. The operating profit is 902.93, 225.42 and 1,692.97. Though company was profited only in the year 2017 except this year all the four years it faced loss though it had a good operating profit.



ii. Balance Sheet :

The total liability of Jet Airways has been gradually decreased from 12,337.39 to 5,845,94 for the give period of five years and at the same time the total assets of the firm is also reduced from the 12,337.39 to 5,845.94. The total debt of the firm is 11,500.69, 10,867.75, 8,821.19, 8,85.79 and 10,251.59 from the year 2017-2019. From this it is clear that the company's financial performance can be identified.



iii. **Cash Flow Statement:**

The opening cash and cash equivalents of the firm is 110.60, 145.61, 69.39, 142.12 and 295.18 and the net increase or decrease of cash and cash equivalent is 35.01, -76.22, 72.73, 153.06 and 660.34 from 2017-2019. The closing cash and cash equivalents are 145.61, 69.39, 143.12, 295.18 and 955.52. From this opening and closing cash and cash equivalents are known for Jet Airways.

For the term of five years from 2017-2019 the net cash obtained from the operating activities are 52,803; 92,126; 1,83,904; 2,24,061 and 1,31,864. The net cash from investing activity is 17,245; 34,157; 1,67,724; 29,343 and 1,383 and the net cash used for the financing activity is 66,034; 15,306; 7,273; 7,622 and 3,501.

FINDINGS:

1. The company has no effect on the foreign exchange fluctuation, cash and cash equivalents of subsidiaries under liquidations.
2. The company do not offer the preference share capital to the shareholders, miscellaneous expenses and deposits.
3. The company uses the cash and cash equivalents more in the fuel and power cost compared to the worker's salary.
4. The customers or passengers are increased to 1,76,460 billion people in 2019 when compared to 1,46,876 billion people in 2017.
5. The aircrafts of Jet Airways are gradually increased for the term of three years from 2017- 2019.

SUGGESTIONS:

1. Improve your inventory
2. Offer discounts for early payment
3. Over investment in fixed assets should be avoided

CONCLUSION:

The cash flow statement shows the details of change in(increase/decrease) of the cash and cash equivalents in operating activities, investing activities and financing activities as well as net change of the cash and cash equivalents in the special treatments. It also contains the net change in cash during the period. When the opening cash and cash equivalents are added to this net change the sum to be obtained is the closing balance of the cash and cash equivalent.8 The income statement is used to find out the difference between the revenue and income of the firm whereas the cash flow statement is used to find out the usage of the cash in the firm for the given period of time. The cash flow statement gives the clear idea about the usage of the working capital. Therefore, the hypothesis of the research is proved that the cash flow statement is not similar to the funds flow statement. The cash flow statement is considered as a standard financial statement, the financial performance of the company can be identified. Some managers can't able to manage the cash and cash equivalents and they will not be able to invest their share in the expertise firm to get the profit. Therefore, the cash flow statement will be very useful to such managers.

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