

A Comparative Study on Cash Flow Statements of FMCG Industry with special reference to Britannia Industries and Nestle India

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Abstract

“A cash flow statement typically breaks out a company's cash sources and uses for the period into three categories: cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. No matter how one measures it, cash flow helps companies expand, develop new products, buy back stock, pay dividends, or reduce debt. This is why some people value cash flow statements more than just about any other financial statement or measure out there, including earnings per share. Cash flow relies heavily on the state of a company's cash from operations, which in turn is heavily influenced by a company's net income. Thus, higher revenues, lower overhead, and more efficiency are big drivers of cash flow. This study focuses on comparative analysis on cash flow statement with five years data to examine the cash flow its cash position because investors often hunt for companies that have high or improving cash flow but low share prices--the disparity often means the share price will soon increase.”

Keywords: Cash Flows, Earning per share, Operating Activities, Investing activities.

INTRODUCTION :-

A statement of cash flows, often called a cash flow statement, is a financial statement which summaries a business's cash transactions throughout a given accounting period. A statement of cash flows reflects a business's liquidity and is therefore helpful in determining short-term viability - including a business's ability to pay bills,

payroll, and other immediate expenses. Cashflow statements are also useful for investors, lenders, or creditors who want to judge a company's financial stability and ability to repay debts. A cash flow statement only addresses cash and cash equivalents. Any transactions which do not directly affect cash receipts or payments – such as depreciation or bad-debt write-offs are

excluded from the statement of cashflows, but may be reported in footnotes.

When recorded on a cash flow statement, money coming into the business is recorded as “cash inflow”, whilst money going out from the business is referred to as “cash outflow”.

A statement of cash flows further categorises all cash transactions into one of three types of activities: operating, investing and financing.

- **Operating activities:** cash inflow or outflow related to the production or sale of a company’s products or services. This includes accounts receivable, as well as the purchasing of raw materials, shipping, marketing and advertising.
- **Investing activities:** any changes to assets or investments. For example, the purchase or sale of an asset or any payments related to mergers or acquisition.
- **Financing activities:** any cash adjustments or changes to capital, debts, loans or dividends. For example, selling stock for cash.

The users of an enterprise’s financial statements are interested in how the enterprise generates and uses cash and cash

equivalents. This is the case regardless of the nature of the enterprise’s activities and irrespective of whether cash can be viewed as the product of the enterprise, as may be the case with a financial enterprise. Enterprises need cash to conduct their operations, to pay their obligations and to provide returns to their investors. Success of every business depends on its cash management. The supply of cash is frequently a limitation on the successful execution of many policies and programs. So it is necessary to study the composition of cash of company to know the impact of its cash flow decision on its liquidity, profitability and solvency.

OBJECTIVES :-

There are three important activities which are the significant parts of Cash Flow Statements. The analysis of all these activities is undertaken with the following objectives:

- (1) To undertake comparative study on Operating Activities for the period of study of selected companies.
- (2) To undertake comparative study on Investing Activities for the period of study of selected companies.

(3) To undertake comparative study on Financing Activities for the period of study of selected companies.

RESEARCH METHODOLOGY:-

For the purpose of the study two (2) companies namely Britannia Industries and Nestle India have been selected. The study is conducted for a period of five (5) financial years i.e. from March 2012 to 2016. In this study, mainly secondary data is collected. Secondary data has been obtained from the following sources:

The statistical analysis technique is selected to analyze the Cash Flow Statements of the companies under study. For this, following techniques are being used.

- Mean
- Standard Deviation
- Co – efficient of Variation

Table 1: Comparative Analysis of Operating Activities, Investing Activities and Financial Activities of both the companies

Activities	2012		2013		2014		2015		2016	
	Britannia	Nestle	Britannia	Nestle	Britannia	Nestle	Britannia	Nestle	Britannia	Nestle
Cash flow operating activities	210.6	1693.3	272.0	1796	614	1644	515	1098	877.69	1465.9
Cash flow Investing activities	-51.5	-940.8	53.8	-440.9	-227.3	-431.7	-384.3	-70.48	-659.4	-127.4
Cash flow Financing activities	-128.6	-513.5	-359	-80	-325.5	-163	-168	-498	-228	-666.6

- Published Annual Reports of the companies for the financial years from March 2012 to 2016.
- Directory of Mumbai Stock Exchange
- Websites of the selected companies
- Other related websites

The Performance evaluation can be examined with the use of different techniques – accounting as well as statistics. All these techniques have certain limitations and merits. To come to the reasonable conclusion apart from accounting analysis the use of statistics is also applied. By cash flow statement the trend and measurement

of three activities to be done for evaluation purpose. And for all these activities comparison with other statistical techniques become necessary. Average is calculated to see the quantum of different companies for each company for given period of time. Subsequently ranks are allotted on the basis of their quantum. But this does not serve the complete purpose hence standard deviation is calculated and ranks are given to them on the basis of their results. This helps to know variation of respective activates for given period of time from its coverage. Theoretically higher the standard deviation, lower the rank and vice versa. Finally co – efficient variation is also calculated to know the consistency level of each activity of each company and ranks are given accordingly. Theoretically higher the co – efficient, lower the consistency

Table2: Mean, Standard Deviation and co-variance for Operating Activities

Comp any	Aver age (mea n)	Ra nk	Stand ard Devia tion	Ra nk	Co- varia nce	Ra nk
Britan nia	498.04	2	236.41	1	47.46	2
Nestle	1539.56	1	245.29	2	15.93	1

For Operating activities, Average of Britannia coRs 498.04 is lesser than nestle co.Rs 1539.56Nestle is given First Rank and Britannia is given Second Rank. Standard Deviation of Britannia is236.41 whereas for Nestle it is 245.29. But, for Operating activities, Co-efficient of Variation of Britannia co is Lower than the Nestle.

Table 3: Mean, Standard Deviation and co-variance for Investing Activities

Compa ny	Avera ge (mean)	Ran k	Standar d Deviati on	Ran k	Co- varian ce	Ran k
Britann ia	253.734	1	252.10	2	-99.35	1
Nestle	324.67	2	318.79	1	-98.18	2

For investing activities and Financing activities, Average of Britannia co is greater than the Nestle. So, Britannia isgiven First Rank and Nestle is given Second Rank. Standard deviation of Britannia co islower than the Nestle. Co-efficient of Variation of for Britannia is greater than Nestle.

Table 4: Mean, Standard Deviation and co-variance for Financing Activities

Company	Average (Mean)	Rank	Standard Deviation	Rank	Co-Variance	Rank
Britannia	241.904	1	88.54	2	-36.60	2
Nestle	777.68	2	432	1	-55.54	1

Financing activities, Average of Britannia co is greater than the Nestle. Standard deviation of Britannia co is lower than the Nestle. But, for Operating activities and Financing activities, Co-efficient of Variation of Britannia co is lower than the Nestle

Table 5: Overall Performance on Base of Three Activities

Level	Operating activities	Investing activities	Financing activities
Best	Nestle	Britannia	Nestle
Poorest	Britannia	Nestle	Britannia

CONCLUSION

A materially misstated cash flow statement, whether it is in terms of incorrect classification in the categories or numerical accuracy, can be misleading to the user and can lead to wrong decisions taken by the

users of the statement. The survey has revealed that although sample banks prepare cash flow statement according to Accounting Standard-3 (AS-3), there is also a degree of non compliance. It is, however, found that there are not many differences between companies in their reporting of cash flow information. This is expected because the preparation of cash flow statement does not allow for many choices, differences of interpretation or different accounting treatments. To make cash flow statement more informative and useful for users, the banks should disclose additional voluntary information such as cash flow per share in their cash flow statements. Items consisting of cash flows from operating, investing and financing activities should also be clarified in the notes of the financial statements. Due to the limited scope of the present study, a large number of research issues have not been attempted but are identified in the course of the study. Disclosure practices of additional items other than operating, investing and financing activities, disclosure practices differences between listed and unlisted companies, disclosure practices

differences between financial and other institutions are some such potential issues for future research.

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