A Comparative Study on Cash Flow Statements of Tata Chemicals Ltd. and Pidilite Chemicals Ltd.

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ABSTRACT

A cash flow statement is required as part of a complete set of financial statements prepared in conformity with Indian Accounting Standards. AS-3 lays down a formal structure for the cash flow statement. Cash flows should be classified under the following three standard headings: "Operating activities", "Investing activities", "Financing activities". The classification of cash flows among operating, investing and financing activities is essential to the analysis of cash flow data. Net cash flow (the change in cash and equivalents during the period) has little informational content by itself; it is the classification and individual components that are informative. Although the classification of cash flows into the three main categories is important, it should be mentioned that classification guidelines are arbitrary.

KEYWORDS | Cash, Cash equivalents, Operating Activities, Investing Activities, Financing Activities

INTRODUCTION :-

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.

In this study, the matters relating to the cash flow statements, which normally forms a part of the financial statements of various enterprises to which the Accounting standard (AS) 3, 'Cash Flow Statements', become mandatory as given by ICAI, is discussed in the light of, and on the basis of, the said Accounting Standard.

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 :-

SAMPLE SELECTION
For the purpose of the study two (2) companies from Chemical Industry i.e. Tata Chemicals Ltd. and Pidilite Chemicals Ltd. have been selected.

PERIOD OF STUDY
The study is conducted for a period of five (5) financial years i.e. from 2008–'09 to 2012–'13.

DATA COLLECTION
In this study, mainly secondary data is collected. Secondary data has been obtained from the following sources :

- Published Annual Reports of the companies for the financial years 2008–'09 to 2012–'13.
- Directory of Mumbai Stock Exchange
- Websites of the selected companies
- Other related websites

STATISTICAL TOOLS AND TECHNIQUES
The statistical analysis technique is selected to analyze the Cash Flow Statements of the companies understudy. For this, following techniques are being used.

(a) Mean
(b) Standard Deviation
(c) Co – efficient of Variation

COMPARATIVE STUDY

(Rs. In crores)

| ACTIVITIES	2008-09		2009-10		2010-11		2011-12		2012-13	
	TATA	PIDILITE	TATA	PIDILITE	TATA	PIDILITE	TATA	PIDILITE	TATA	PIDILITE
Cash flow from Operating Activities	1027.87	260.23	843.07	429.91	427.78	322.41	340.73	506.91	223.34	512.7
Cash flow from Investing Activities	-684.93	-227.99	-48.35	-337.46	-248.19	-37.06	89.29	-231.52	-238.74	-196.75
Cash flow from Financing Activities	-91.55	-53.72	-7951.51	-186.56	-15592.78	-245.86	-336.93	-285.84	130.33	-325.82

COMPARATIVE CHART FOR OPERATING ACTIVITIES
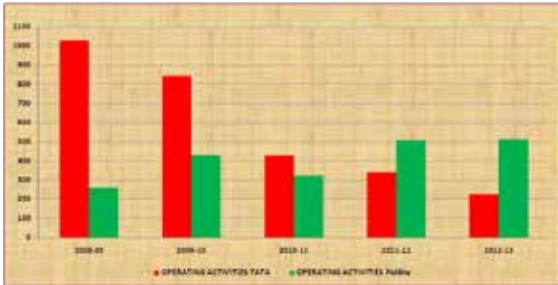
COMPARATIVE CHART FOR INVESTING ACTIVITIES
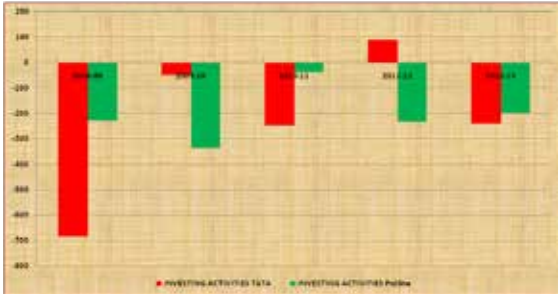
COMPARATIVE CHART FOR FINANCING ACTIVITIES
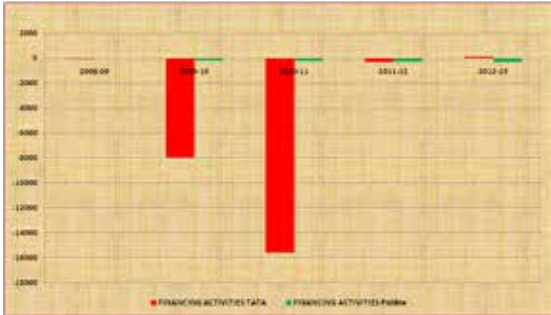
MEAN, STANDARD DEVIATION AND CO-VARIANCE
OPERATING ACTIVITIES

COMPANY	Average (Mean)	Rank	Standard Deviation	Rank	Co-Variance	Rank
TATA	572.56	1	308.92	2	53.95	2
Pidilite	406.43	2	100.37	1	24.7	1

INVESTING ACTIVITIES

COMPANY	Average (Mean)	Rank	Standard Deviation	Rank	Co-Variance	Rank
TATA	-226.18	2	261.63	1	-115.67	1
Pidilite	-206.16	1	97	2	-47.05	2

FINANCING ACTIVITIES

COMPANY	Average (Mean)	Rank	Standard Deviation	Rank	Co-Variance	Rank
TATA	-4768.49	2	6209.8	1	-130.23	1
Pidilite	-219.56	1	94.83	2	-43.19	2

FINDINGS :-

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.

(1) Average :
- Theoretically higher the average, higher the rank and vice versa.
- For Operating activities, Average of TATA Co. (Rs. 572.56 crore) is greater than Pidilite Co. (Rs. 406.43 crore). Accordingly, TATA is given 1st rank and Pidilite is given 2nd rank.
- But, for Investing activities and Financing activities, Average of Pidilite Co. is greater than the TATA Co. So, Pidilite is given 1st rank and TATA is given 2nd rank.

(2) Standard Deviation :
- Theoretically higher the Standard Deviation, lower the rank and vice versa.
- For Operating activities, Standard Deviation of TATA is 308.92 whereas for Pidilite Co. it is 100.37. It is lower in Pidilite Co. So, it is given 1st rank and TATA Co. is given 2nd rank.
- But, for Investing activities and Financing activities, Standard deviation of TATA Co. is lower than the Pidilite Co. So, TATA is given 1st rank and Pidilite is given 2nd rank.

(3) Co – Efficient of Variation :
- Theoretically higher the Co-efficient of Variation, lower the rank and vice versa.
- For Operating activities, Co-efficient of Variation of for Pidilite Co. (24.70) is less than TATA Co. (53.95). Accordingly, Pidilite is given 1st rank and TATA is given 2nd rank.
- But, for Investing activities and Financing activities, Co-efficient of Variation of TATA Co. is lower than the Pidilite Co. So, TATA is given 1st rank and Pidilite is given 2nd rank.

OVERALL CONCLUSION

Level	Operating Activities	Investing Activities	Financing Activities
Best	PIDILITE	TATA	TATA
Poorest	TATA	PIDILITE	PIDILITE

LIMITATIONS OF THE STUDY :-

Every researcher tries to give justice to his research. Yet, there are some limitations to his findings because he has to depend on information given by some published or unpublished records and other sources. So, the further research can be carried out by considering the aspects given below.

This study is entirely based on the published financial statements of the company and other information received from the company officials. So, all analysis is based on this data. So it can be reliable to that extent.

(1) As the information is collected from limited sources, it is not possible to use different tools and techniques of statis-

tical analysis.
(2) The study is based on secondary data; the secondary data has its own limitation.
(3) Some external factors also could affect directly or indirectly to the companies' efficiency. But it is not easy to judge completely right about them.
(4) The entire study is limited to two companies only. It can be carried out by including Industry.

CONCLUSION AND RECOMMENDATION :-
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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