



## International Journal of Arts and Science Research

Journal home page: [www.ijasrjournal.com](http://www.ijasrjournal.com)



### AN EMPIRICAL STUDY OF FINANCIAL PERFORMANCE EVALUATION THROU CASH FLOW STATEMENT OF AN INDIAN MANUFACTURING COMPANY

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#### ABSTRACT

Accounting principles are useful tools in executing and improving a successful practice management plan. In today's competitive environment, evaluating the financial performance is crucial for companies in manufacturing sector. The analysis of financial performance reflects the financial position of the company, the level of the competitiveness in the same sector, and a thorough knowledge about the cost and profit centers within the firm. Managers, investors, and creditors can then apply this accounting information provided by financial analysis in their strategic planning and investment decisions. This study investigates the financial performance of an investment company in INDIA for a three-year period from 2010 to 2013, which is assessed using cash flow statement. The findings pointed out that overall company performance reduced remarkably in the last year of the analysis. This study principally emphasizes on how accounting information aids budgetary decision-makers to evaluate the company financial performance, determine its future obligations, and make better investment decisions.

#### KEY WORDS

Financial performance analysis, cash flow statement, balance sheets and income statements.

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#### INTRODUCTION

The rising intensity of worldwide business competition has led corporations to use different types of performance assessment tools for evaluating their financial situation. Generally, performance evaluation of the firms is conducted within the context of financial analysis. As the financial performance has a broad concept, including economic growth, return, and productivity, using the

cash flow statement in the performance assessment can be appropriate for companies and their counterparts.

The basic accounting information derived from financial reports does not indicate whether gained profit is sufficient or not; or are assets being used proficiently? Is the overall productivity efficient? Do the financial problems exist within the business? To answer such questions, ratio analysis can be performed in which required data are extracted from income statements and balance sheets.

For several years, numerous studies in the literatures have revealed the benefits of the cash flow statement. Rees stated that cash flow statement analysis responds to the amounts of information held in the set of financial statements and the problem of comparison between firms with different sizes. Using them, both analysts and investors would be able to summarize and analyze related quantitative information to obtain momentous data for appraising the firm's operation, investigating its situation in the sector, and making financial decisions.

Numerous empirical studies were conducted to create classification patterns of cash flow statement. The principal objective in these investigations was to state the maximum amounts of data in the initial cash flow statement by a diminished set of factors.

According to Whittington there are mainly two usages of financial ratios: normative and positive. When company ratios are compared with some standard values such as mean, the utilization is normative. The positive application of financial ratios is for forecasting purpose. The practice is prevalent among those looking for business failure prediction. However, efforts to assess the likelihood of the failure instead of classifications have generally been speculated to generate unsatisfactory results.

Beaver stated that forecasting the companies' performance affects the speed of making capital market investments decisions. It is noticeable that a country's economy condition depends on the speed of these decisions making; hence, the faster these are made, the faster the economy would improve.

## **METHODOLOGY**

This study utilized the quantitative research methodology. In order to investigate the financial performance, accounting information were derived from annual reports of the madhucon sugars and power pvt ltd. for three consecutive years madhucon sugars and power pvt ltd. is an investment holding company that designs, produces, assembles, and commissions processing units and equipment's for oil and gas, petrochemical, and mineral processing industries through its group companies. It is composed of two main sections; Group and Company.

Vertical analysis for balance sheets and income statements were conducted. Thereafter, to assess the relationships between various data on balance sheets and income statements, cash flow statement were measured and evaluated for the studied period.

Raw data were analyzed using Microsoft Excel 2010 software. Results are stated through frequency counts and other descriptive statistics.

## **DATA COLLECTION AND ANALYSIS**

This part reveals some important data stemmed from balance sheets and income statements in years of 2011, 2012 and 2013. Calculated and analyzed; so that the financial manager will be aware of its current financial performance and can then compare it with other industries in the same sector.

**Table No.1: Cash Flow Statement of Madhucon Sugars and Power Pvt Ltd for the Year 1-4 -2012 to 31-3-2013**

S.No	Particulars	Amount(Rs.)
A	<b><u>Cash flow from operating activities:-</u></b>	
	Net profit after tax and extraordinary items adjustments for	(77,43,945)
	<b>Add:</b> Depreciation for the current year	1,29,96,748
	Miscellaneous Expenses written off	-
		<hr/>
	Operating loss before working capital changes	52,52,803
	<b><u>Changes in working capital:-</u></b>	
	(a) Increase in inventories	(4,17,98,617)
	(b) Increase in receivables	(5,86,813)
	(c) Increase in other current assets	(11,00,99,271)
(d) Increase in loans and Advances	(37,23,977)	
(e) Increase in current liabilities	9,20,81,385	
	<hr/>	
Net cash flow from operating activities	(6,41,27,293)	
	<hr/> <hr/>	
B	<b><u>Cash flow from investing activities :-</u></b>	
	(a) Increase in fixed assets	(1,29,11,72,084)
		<hr/>
	(1,29,11,72,084)	
	<hr/> <hr/>	
C	<b><u>Cash flow from financing activities:-</u></b>	
	1. Increase in share capital	-
	2. Increase in bank loan occ	95,57,99,573
	3. Increase in unsecured loans	41,85,27,609
	<hr/>	
Net cash flow from financing activities	1,37,43,27,182	
	<hr/> <hr/>	
Net decrease in cash and bank equivalents	2,42,80,608	
<b>Add :-</b> opening cash and bank balance	14,56,882	
	<hr/>	
Closing cash and bank balance	2,57,37,490	

**Table No.2: Cash Flow Statement of Madhucon Sugars and Power Pvt Ltd for the Year 1-4 -2011 to 31-3-2012**

S.No	Particulars	Amount (Rs.)
A	<b><u>Cash flow from operating activities:-</u></b>	
	Net profit after tax and extraordinary items adjustments for	
	<b>Add:</b> Depreciation for the current year	4,68,544
	Miscellaneous Expenses written off	1,46,96,971
		1,22,300
	Operating profit before working capital changes	
		<u>1,52,87,815</u>
	<b><u>Changes in working capital:-</u></b>	
	(a) Increase in inventories	
	(b) Decrease in receivables	(4,45,60,840)
(c) Increase in other current assets	49,64,010	
(d) Decrease in loans and Advances	(50,70,059)	
(e) Increase in current liabilities	2,77,06,239	
Net cash flow from operating activities	1,77,00,699	
	<u>7,70,049</u>	
	<b><u>Cash flow from investing activities :-</u></b>	
(b) Increase in fixed assets	(18,30,96,602)	
	<u>(18,30,96,602)</u>	
	<b><u>Cash flow from financing activities:-</u></b>	
1. Increase in share capital	8,00,00,000	
2. Increase in bank loan occ	6,00,98,052	
3. Increase in unsecured loans	1,42,75,708	
	<u>15,43,73,760</u>	
C	Net decrease in cash and bank equivalents	(1,26,64,978)
	<b>Add :-</b> opening cash and bank balance	1,41,21,860
	Closing cash and bank balance	<u>14,56,882</u>

**Table No.3: Cash Flow Statement of Madhucon Sugars and Power Pvt Ltd for the Year 1-4 -2010 to 31-3-2011**

S.No	Particulars	Amount (Rs.)
A	<b><u>Cash flow from operating activities:-</u></b>	
	Net profit before tax and extraordinary items adjustments for	2,40,76,532
	<b>Add:</b> Depreciation for the current year	1,55,07,981
	Miscellaneous Expenses written off	1,22,300
	Operating profit before working capital changes	3,97,06,813
	<b><u>Changes in working capital:-</u></b>	
	(a) Decrease in inventories	2,96,51,177
	(b) Increase in receivables	(64,47,481)
	(c) Increase in other current assets	(26,35,857)
	(d) Increase in loans and Advances	(2,11,54,220)
(e) Increase in current liabilities	1,41,77,617	
Cash generated from operating before tax	1,35,91,236	
<b>Less :</b> Income tax paid	(6,07,655)	
	(1,29,83,581)	
	<b><u>Cash flow from investing activities :-</u></b>	
(a) Increase in fixed assets	(2,83,50,617)	
B	<b><u>Cash flow from financing activities:-</u></b>	
	1. Decrease in Bank loan occ	(2,42,34,147)
	2. Increase in unsecured loans	1,25,45,805
		(1,16,88,342)
C	Net increase in cash and bank equivalents	1,26,51,435
	<b>Add :-</b> opening cash and bank balance	14,70,425
	Closing cash and bank balance	1,41,21,860

## CONCLUSION

In this study, the performance of a manufacturing company was measured over the three-year period from 2011 to 2013. According to resultant assessments, it can be interpreted that during year 2011, shows that the cash flow from operating activities, a negative balance of Rs /- 64,127,293 which is an outflow of cash. These it shows that the company didn't maintain adequate cash balance .company did not operate well, and overall firm's performance in terms of profitability, liquidity, declined due to deterioration in the company's operating environment.

During the year 2011-12 the cash flow analysis of Madhucon Sugars and Power Ltd, shows that the cash flow from operating activities, is Rs /- 7, 70,049 which is an inflow of cash. In comparison to the previous year i.e., 2010-11 the value of cash flow from operating activities have been decreased by Rs/- 1,45,6882. From the statement it is also observed that the fixed assets have been financed by the long term financial sources.

During the year 2010-11 the cash flow analysis of Madhucon Sugars and Power Ltd, shows that the cash flow from operating activities Rs /- 12,98,3581 which is an inflow of cash. There is an increase in cash reserves than compare to previous year.

In comparison to the previous year there is an i.e., 2009-10 the value of cash flow from operating activities have been increased by Rs/- 1,26,51,435.

## ACKNOWLEDGEMENT

The authors are sincerely thankful to the Swarna Bharathi Institute of Science and Technology, Khammam, Telangana, India for providing the facilities to complete this research work.

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