



A STUDY ON COMPARATIVE STUDY OF DIRECT AND INDIRECT METHODS IN CASH FLOW STATEMENT PREPARATION IMPLICATIONS FOR FINANCIAL REPORTING WITH REFERENCE TO KOTAK MAHINDRA

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ABSTRACT

The cash flow statement (CFS) is an essential component of a company's financial reporting that has been required since 1987. It details the inflow and outflow of cash and cash equivalents, complementing the income statement and balance sheet. Investors may get insight into a company's operational efficiency, revenue generation, and expenditure patterns with the help of the CFS. This section will teach you the ins and outs of the CFS and how to use it into your business analysis.

What the CFS Is Made Of

Cash flow statements differ from income and balance sheets in that they do not include the amount of future cash inflows and outflows that have been recorded on credit. Sales reported on both the income and balance sheets, whether in cash or on credit, make up net income, which is distinct from cash. (If you want to know what caused the credit crisis, read

The three main ways in which money comes into and goes out of a business—core operations, investments, and financing—make up its cash flow.

Business processes

The operations component of cash flow measures the cash inflows and outflows created by a company's primary business activities. It indicates the amount of cash earned by a company's goods or services. Cash from operations often reflects changes in cash, receivables, depreciation, inventories, and payables.

To get at cash flow, you have to make a few changes to net income. You may do this by adding or taking away variations in revenue, costs, and credit transactions (which show up on the income statement and balance sheet) that happen from one period to the next. These changes are necessary because the income statement and the balance sheet both include non-cash items in their calculations of net income and total assets and liabilities. Therefore, many things need to be reevaluated in order to calculate cash flow from operations, as not all transactions involve real cash.

Every time an accounting period ends and a new one begins, cash flow should reflect any changes to accounts receivable on the balance sheet. When AR goes down, it means more money is coming into the business as a result of consumers paying off their credit accounts. To calculate net sales, add the amount by which AR has gone down. Although the sums reflected in accounts receivable are revenue, they are not cash, thus if there is an increase from one accounting period to the next, the amount of that increase must be subtracted from net sales.

The converse is also true: when a company's inventory grows, it means they've expanded their spending on raw materials. The rise in the value of inventory is subtracted from net sales if the payment for the inventory was made in cash. Sales after deducting inventory would equal net sales. A rise in



accounts payable would show up on the balance sheet if inventory was bought on credit, and the amount of the increase from one year to the next would be added to net sales.

I. INTRODUCTION

The cash flow statement was previously known as the flow of funds statement. The cash flow statement reflects a firm's liquidity.

The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time, and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These noncash transactions include depreciation or write-offs on bad debts or credit losses to name a few. The cash flow statement is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities. Noncash activities are usually reported in footnotes.

The cash flow statement is intended to provide information on a firm's liquidity and solvency and its ability to change cash flows in future circumstances

1. provide additional information for evaluating changes in assets, liabilities and equity
2. improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods
3. indicate the amount, timing and probability of future cash flows

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations, which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.

NEED AND IMPORTANCE OF STUDY

Many business owners disregard the importance of cash flow statements because they unwittingly believe that their current financial standing can be construed from other financial reports and projections. Unfortunately, however, a cash flow statement is necessary to adequately assess the incoming and outgoing flow of cash and other resources in a business.

Not only will a business owner with a cash flow system be more aware of his or her financial standing, but it will also help investors to make educated decisions on future investments. A business with regular and reliable cash flow statements shows more economic solvency, and is more attractive to investors.



A cash flow statement documents the incoming and outgoing cash in plain terms. Future sales and sales made for credit (unless they have been paid off) are not included in the cash flow statement, and most of the data will come from core operations. Payables and receivables should be expressly defined, as should depreciation of product value and inventory that has not yet been moved.

This will allow a business owner to compare past periods with the current financial standing and determine whether your receivables have increased or decreased.

This can also help to track your investments next to your receivables and payables. Are your investments increasing or decreasing in value? And has your inventory moved at a steady pace? New or expanding businesses can expect to see a decrease in cash flow, but this doesn't mean that the business is going under. More stable businesses should see a steadily increase in cash flow over a period of several months or years.

There are typically five different sections in a cash flow statement, though large businesses might have more complex cash flow systems as required.

SCOPE OF THE STUDY:

Since it will not be possible to conduct a micro level study of all industries in Telangana, the study is restricted to **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.) only.

A study that involves an examination of long term as well as short term sources that a company taps in order to meet its requirements of finance. The scope of the study is confined to the sources that **Kotak Mahindra Group** tapped over the years under study.

II. OBJECTIVES:

- To know the flow of cash in the organization **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.).
- To access the efficiency with sources and uses of cash were made by the co ordinance the present year 2019-2020 to 2023-2024.
- To identify the changes in the elements of focus and uses of working capital in between above mentioned years.
- To improve the financial performance of the company

III. METHODOLOGY OF STUDY:

The following are the main sources of data used for this study which are

Collected and compiled from published and unpublished sources of the Company data. The published sources are as follows.

- 1) Management information system published by **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.).



- 2) Status Report on **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.).
- 3) Journals, books and other published reports.

The present study is mainly based on primary and secondary sources of Data collection. The primary data was directly collected by observations, Interviews questionnaire etc.

The secondary data was collected from the literature available in libraries and research studies and annual reports are related to the present study. It includes published and unpublished literature like books, reports and generally Articles of the **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.). .

IV. LIMITATIONS OF THE STUDY:

The limitations of present study are as The study does not flow the fund.

1. The study is based mainly on secondary information.
2. The study does not touch all the units of **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.).
3. The present study cannot be used for inter firm comparison.
4. Limited span of time is a major limitation for this project.
5. The act and figures of the study is limited to the period of FIVE years i.e. 2015-2019.
6. The data used in reports are taken from the annual reports, published at the end of the years.
7. The result does not reflect the day-to-day transactions.
8. It is also impossible to the study of day-to-day transactions in cash management.
9. The analysis of the working capital is taken FIVE years.

Importance of cash flow statement:

The information which is provided by cash flow statement is neither available in the balance sheet nor in the income statement and hence its important. The changes which have taken place in between two accounting dates are highlighted by cash flow statement. A lay man cannot grasp the underlying significance of achievements and progress of the company simply by a personal of the balance sheet and income statement of different years. The comparative and analytical study presented by the statement giving the details of sources and uses of cash during a given period of immense help to the users of information. It is very useful tool in analytical kit of the management also, besides the outsiders, in order to have 'at a glance' appraisal of the financial and operating performance of a company. Since the statement shows the extent to which the working capital has been effectively put to use, the management's task of taking policy decision regarding investment, dividends etc, is great facilitated.

The projected cash flow statement can also be prepared and then budgetary control and capital expenditure control can be exercised to the benefit of the entire organization.

Structure of the Cash Flow Statement



The most commonly used format for the cash flow statement is broken down into three sections: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities.

Cash flows from operating activities are related to your principal line of business and include the following:

- Cash receipts from sales or for the performance of services
- Payroll and other payments to employees
- Payments to suppliers and contractors
- Rent payments
- Payments for utilities
- Tax payments

Investing activities include capital expenditures – disbursements that are not charged to expense but rather are capitalized as assets on the balance sheet. Investing activities also include investments (other than cash equivalents as indicated below) that are not part of your normal line of business. These cash flows could include:

- Purchases of property, plant and equipment
- Proceeds from the sale of property, plant and equipment
- Purchases of stock or other securities (other than cash equivalents)
- Proceeds from the sale or redemption of investments

Financing activities include cash flows relating to the business's debt or equity financing:

- Proceeds from loans, notes, and other debt instruments
- Installment payments on loans or other repayment of debts
- Cash received from the issuance of stock or equity in the business
- Dividend payments, purchases of treasury stock, or returns of capital

Cash for purposes of the cash flow statement normally includes cash and cash equivalents. Cash equivalents are short-term, temporary investments that can be readily converted into cash, such as marketable securities, short-term certificates of deposit, treasury bills, and commercial paper. The cash flow statement shows the opening balance in cash and cash equivalents for the reporting period, the net cash provided by or used in each one of the categories (operating, investing, and financing activities), the net increase or decrease in cash and cash equivalents for the period, and the ending balance.

There are two methods for preparing the cash flow statement – the direct method and the indirect method. Both methods yield the same result, but different procedures are used to arrive at the cash flows.

Direct Method



Under the direct method, you are basically analyzing your cash and bank accounts to identify cash flows during the period. You could use a detailed general ledger report showing all the entries to the cash and bank accounts, or you could use the cash receipts and disbursements journals. You would then determine the offsetting entry for each cash entry in order to determine where each cash movement should be reported on the cash flow statement.

Another way to determine cash flows under the direct method is to prepare a worksheet for each major line item, and eliminate the effects of accrual basis accounting in order to arrive at the net cash effect for that particular line item for the period. Some examples for the operating activities section include:

Cash receipts from customers:

- Net sales per the income statement
- Plus beginning balance in accounts receivable
- Minus ending balance in accounts receivable
- Equals cash receipts from customers

Cash payments for inventory:

- Ending inventory
- Minus beginning inventory
- Plus beginning balance in accounts payable to vendors
- Minus ending balance in accounts payable to vendors
- Equals cash payments for inventory

Cash paid to employees:

- Salaries and wages per the income statement
- Plus beginning balance in salaries and wages payable
- Minus ending balance in salaries and wages payable
- Equals cash paid to employees

Cash paid for operating expenses:

- Operating expenses per the income statement
- Minus depreciation expenses
- Plus increase or minus decrease in prepaid expenses
- Plus decrease or minus increase in accrued expenses
- Equals cash paid for operating expenses

Taxes paid:



- Tax expense per the income statement
- Plus beginning balance in taxes payable
- Minus ending balance in taxes payable
- Equals taxes paid

Interest paid:

- Interest expense per the income statement
- Plus beginning balance in interest payable
- Minus ending balance in interest payable
- Equals interest paid

Under the direct method, for this example, you would then report the following in the cash flows from operating activities section of the cash flow statement:

- Cash receipts from customers
- Cash payments for inventory
- Cash paid to employees
- Cash paid for operating expenses
- Taxes paid
- Interest paid
- Equals net cash provided by (used in) operating activities

Similar types of calculations can be made of the balance sheet accounts to eliminate the effects of accrual accounting and determine the cash flows to be reported in the investing activities and financing activities sections of the cash flow statement.

Indirect Method

In preparing the cash flows from operating activities section under the indirect method, you start with net income per the income statement, reverse out entries to income and expense accounts that do not involve a cash movement, and show the change in net working capital. Entries that affect net income but do not represent cash flows could include income you have earned but not yet received, amortization of prepaid expenses, accrued expenses, and depreciation or amortization. Under this method you are basically analyzing your income and expense accounts, and working capital. The following is an example of how the indirect method would be presented on the cash flow statement:

- Net income per the income statement
- Minus entries to income accounts that do not represent cash flows
- Plus entries to expense accounts that do not represent cash flows
- Equals cash flows before movements in working capital
- Plus or minus the change in working capital, as follows:



- An increase in current assets (excluding cash and cash equivalents) would be shown as a negative figure because cash was spent or converted into other current assets, thereby reducing the cash balance.
- A decrease in current assets would be shown as a positive figure, because other current assets were converted into cash.
- An increase in current liabilities (excluding short-term debt which would be reported in the financing activities section) would be shown as a positive figure since more liabilities mean that less cash was spent.
- A decrease in current liabilities would be shown as a negative figure, because cash was spent in order to reduce liabilities.

The net effect of the above would then be reported as cash provided by (used in) operating activities.

The cash flows from investing activities and financing activities would be presented the same way as under the direct method.

V. FINDINGS

1. During the period 2020-2024 more than 51% of the cash came from trading activities. In the application of cash around 40.24% utilized for investing in fixed assets.
2. During the period 2019-2020 to 2023-2024 more than 38.68% of the cash came from trading activities. In the application of the cash around 65.17% of the cash are utilized for investing in fixed assets.
3. During the period 2019-2020 to 2023-2024 more than 69.54% of the cash came trading activities. In the application of the cash 32.32% of the cash are utilized for investing in fixed assets.
4. During the period 2019-2020 to 2023-2024 more than 35.67% of the cash came trading activities. In the application of the cash 55.64% of the cash are utilized for investing in fixed assets.
5. During the period 2019-2020 to 2023-2024 more than 54.25% of the cash came trading activities. In the application of the cash 71.64% of the cash are utilize for the investing in fixed assets.
6. During the period 2019-2020 to 2023-2024 more than 58.96 % of the cash came trading activities. In the application of the cash 75.61 % of the cash are utilize for the investing in fixed assets.

VI. SUGGESTIONS

- For the improving the financial performance of the company the following suggestions are made.
- In order to reduce the outside borrowings in the company has to acquire. The capital from equity sources. Keeping in view the debt equity the proportion as normal.
- The liquidity of the company should be improved by maintaining the optimum current assets and liquid assets according to standard norms.



- The quantum of the sales generated should be improved impressively in order to attain higher return on investment. To improve the financial health of the company and maximizing the time between the source mobilization and utilization the management must introduce the new cost saving techniques.

VII. CONCLUSIONS

1. The net profit for the year 2023–2024 at Kotak Mahindra is negative. This is a predictable occurrence given that the net profit has been declining over the last two years.
2. As a result of the price rise, Kotak Mahindra's profit margin is declining and exhibiting a negative profit.
3. Kotak Mahindra has an acceptable net working capital ratio.
4. In order to lower operational expenses, Kotak Mahindra needs to enhance the operational Ratio in 2019–20, 2021–22, and 2023–24.
5. Kotak Mahindra's operational cash is adequate. This ratio is going down since manufacturing costs are going up. To save money, the needs to cut down on its office administration.

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