CHAPTER III

RESEARCH OBJECTIVES AND METHODOLOGY

After reviewing earlier literature contributed by different authors in respect of Cash flow statement in the previous chapter, an attempt has been made in this chapter to state:

I. The objectives of the study
II. The problem
III. Procedure and methodology regarding:
   a) Selection of the sample,
   b) Collection of data,
   c) Scope of the study and
   d) Methodology.
IV. The hypothesis
V. Relevance of the study
VI. Limitations of the study

I. The Objectives of the Study:

The objectives of research with reference to Cash flows prepared by corporations in India, according to revised AS-3 of Institute of Chartered Accountants of India-ICAI, is to identify the area of income and expenditure items appearing in three categories. The extent to which there are complication errors or mistake committed by the companies.
The purpose has not been to tally the statements and find out arithmetical accuracy.

In this thesis, an attempt has been made to find out the disclosure of information in the Cash flow statements which will assist the analyst in understanding other related financial statements. The specific objectives of the study are:

1) To review the information, which is drawn from Balance sheet,
2) To study the contents of Cash flow,
3) To identify the factors that influences the proper disclosure of information in Balance sheet,
4) To critically evaluate the qualitative performance of Cash flow statement,
5) To offer suggestions to improve quality of information of Cash flow statement by removing the deficiencies in the Cash flow.

Since this study is the first of its kind, in the beginning, objectives of a very broad nature had to be borne in mind. An effort is made to cover maximum objectives out of the above list.

II. The Problem:

Most of the items that are included in Cash flow statements are derived from Balance sheet simply but some of the other items need a complex computing that sometimes is confusing for an analyst. Data collection, keeping in view all the above-referred objectives, led to identification of the problem areas. When a research project based on
financial statements provided by corporations in their annual reports was conceived, the researcher noticed the following features of a problem:

1. Annual reports of corporations provide voluminous data.
2. A new statement in the form of Cash flow statement would contain additional data, which might be complicated data.
3. Whether this additional data can be effectively utilised by corporations, investors, analysts, and shareholders, etc (users).
4. If so, how to determine its utility.

To sum up, the problem can be restated, “If Cash flow statements contains useful complicated data, how to reduce its complexity and utilise it.”

The fact that Cash flow statements contain complicated data is born out by Zeff’s reference to a letter from Financial Executive Institute to the Securities and Exchange Commission (SEC). The letter is reproduced in Appendix 1 on page 129.

Financial Executive Institute is critical about the utility of information provided through Cash flow statement if compared with cost involved and efforts required putting in. Such a conclusion can be drawn on the basis of the following extract.

“The guide lines of statement 95 along with the requirements to present the effects of individual transactions have both greatly complicated and increased the cost of preparing external financial

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statements, when compared with APB 19. For multinational corporations with many active reporting entities statement 95 has required that numerous individuals in different capacities around the world provide input for the computations that are prepared quarterly. In two CCR companies it is estimated that more than one hundred hours are required to comply with each quarterly reporting requirement.

The logistic problems associated with many foreign locations are magnified by the gains and losses on foreign currencies, which must be assigned to the various components of the statement. Foreign historical data does not always correspond to Cash flow requirements, and difficulties arise where source data is not maintained in the United States.

Domestically, this statement has required that separate reporting programs be developed and many departments must provide input to support this reporting. The cost of audit and quarterly review of the data has risen sharply as a result of this requirement. In total, the time and cost necessary to complete the statement of Cash flow is very high when compared to the remainder of the external financial statements. In many companies this statement is not used internally or is not used in the same detailed format as is required for external reporting purposes, making the entire effort necessary solely for external reporting. If the SFAS 95 Cash flow statement were clearly more useful to financial statement readers, this additional effort would be at least partly justified; however, the fact that the format is not meaningful for management use makes its analytical value to others doubtful as well.
SFAS 95 originally presented even greater difficulties for banks and financial institutions. These problems persisted in the final statement despite input during the development process, necessitating further changes after issuance.”

However, in this research project cost and efforts are not the criteria for determining utility. So this thesis has tried to identify major problems that are faced by an analyst that make it difficult to understand the Cash flow statement.

III. Procedure and Methodology:

a) Selection of the sample:

Sample for this study is based on secondary data, in the form of published annual reports of companies listed on the Mumbai Stock Exchange. The sample was not random sample, it may be considered as a stratified selected sample.

The starting point was 162 Companies, which were selected from a journal, the “Capital Market”, dated 24 August 1997. In this journal, a list containing 2000 major companies which cover more than 95% of the total market capitalisation on that date was included. This list was treated as the total population of companies, which are obliged to prepare Cash flow statements. The number of categories of industries at that time was 332. For practical utility the subgroups have been consolidated and reduced to 101. The sample has been drawn from the above 101 groups of industries. In selecting the sample the following aspects have been considered:

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1) Companies with largest\textsuperscript{3} equity, sales and profit after tax (NP).
2) Companies with smallest\textsuperscript{4} equity, sales and profit after tax (NP).
3) Finance companies in different size.

In the third group finance companies have been segregated. The FASB No. 104 prescribes a separate format for banks and finance companies in US. Before collection of the present data it was thought that in India too a separate format might have been prescribed. However, it has been noticed that only SBI and HDFC Bank, have been adopting the FASB format. The remaining nine finance companies are following format prescribed by Mumbai Stock Exchange.

The process followed for sampling is given below:

1) In the first category, all those companies which had largest amount of:
   a) Equity,
   b) Sales,
   c) Net profit after tax (NP) and
   d) EPS (Earning Per Share)

were selected in a descending order. After sorting, it was found that there is no logical relation between EPS and other factors. So all those companies, which were selected because of their large EPS, were omitted and EPS was deleted as a criterion. By adopting the above procedure for selection only 75 companies could be considered according to this procedure because the sample had more than two factors common.

\textsuperscript{3} Companies which are in large group their equity is in the range 50-4200 Crores.
\textsuperscript{4} Companies which are in small group their equity is in the range of 30-2 Crores.
Though in fact forty companies were originally selected in each of the (a), (b) and (c) factors.

2) In the second category, all those companies that had smallest amount in equity, sales and net profit (loss) after tax (NP) in each 101 categories of industry were chosen. These companies were sorted in an ascending order. 75 companies were selected which were smaller according to the factors considered.

3) In the third category, the numbers of finance companies in the journal were 148, which had been categorised in ten groups. All these categories were summarised in five classes as below:

   a) Finance-Large
   b) Finance-Medium
   c) Finance-Small
   d) Finance-Mini
   e) Finance-Others

   The sizes, which are considered for these companies, are according to what has been mentioned in the journal, but others includes other finance companies which are not in the first four categories.

   According to the percentage that had been considered for the first two categories which have been about 8% of the population, for finance companies also, this percentage has been considered. So the 12 finance companies selected from among the five different classes according to their percentage is as given below:

<table>
<thead>
<tr>
<th>Classes</th>
<th>Total No. Company</th>
<th>No. Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Finance-Large</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>2) Finance-Medium</td>
<td>32</td>
<td>3</td>
</tr>
<tr>
<td>3) Finance-Small</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>4) Finance-Mini</td>
<td>40</td>
<td>3</td>
</tr>
<tr>
<td>5) Finance-Others</td>
<td>26</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>147</strong></td>
<td><strong>12</strong></td>
</tr>
</tbody>
</table>
After finding the number of the sample that must be selected in each category, all the companies in each category were sorted in descending order and the top in each category was selected. So the number of finance companies which came out of this selection comes to 12 units. It was the last part. Finally the composition of 162 sample were as below:

<table>
<thead>
<tr>
<th>No. of Sample</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Companies with large equity, sales and net profit</td>
<td>75</td>
</tr>
<tr>
<td>b) Companies with small equity, sales and net profit</td>
<td>75</td>
</tr>
<tr>
<td>c) Finance companies of mixed size</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total of sample selected</strong></td>
<td><strong>162</strong></td>
</tr>
</tbody>
</table>

Originally, it was thought that the information of 162 companies would be sufficient. This number of sample was selected on the basis of what data can be collected, analysed and synthesised during the tenure of the research scholarship provided by the government of Iran. So there was time constraint for conducting research. But after much effort “The Mumbai Stock Exchange” could provide annual reports of 106 companies only.

In fact, when the Mumbai Stock Exchange was requested to provide 106 annual reports of companies listed with them, they considered that this is a big demand on them and they were reluctant to supply. Constant follow up helped in receiving 106 annual reports. A list of the sample is included in the Appendix 2 on page 131.

From this list of sample of 106 companies, some companies have been eliminated for the following reasons:
a) Those companies who had not prepared Cash flow statement in spite of the requirement by Mumbai Stock Exchange, for the year 1995-96. (The first year of preparation and inclusion of Cash flow statement in the annual reports.) There were three companies of this type.

b) Those companies who had prepared and included Cash flow statement in the first two years i.e. 1995-96, 1997-98 but the researcher couldn’t get the third year’s annual report from Mumbai Stock Exchange. Such companies were four in number.

c) Those companies, which had merged in the year 1997-98. There was only one company of this type.

d) The companies who were listed in Mumbai Stock Exchange after 1995-96.

e) IDBI was the remaining company, which did not have comparative figures for all the three years.

Alphabet (a) to (e) indicate the reason of elimination, in Table 3.1.

Data regarding eliminated companies are given in the table 3.1 below:

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the Company</th>
<th>1995-96</th>
<th>1996-97</th>
<th>1997-98</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amar Dye-Chem Ltd.</td>
<td>-</td>
<td>-</td>
<td>b</td>
</tr>
<tr>
<td>2</td>
<td>Bank of India</td>
<td>a</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Gas Authority of India Ltd.</td>
<td>a</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>I.D.B.I. Bank</td>
<td>e</td>
<td>e</td>
<td>e</td>
</tr>
<tr>
<td>5</td>
<td>Intron Ltd.</td>
<td>b</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Jain Studios Ltd.</td>
<td>a</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>Lime Chemicals Ltd.</td>
<td>-</td>
<td>-</td>
<td>b</td>
</tr>
<tr>
<td>8</td>
<td>Motul Mafatlal Lubricants Ltd.</td>
<td>d</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Rajashree Polyfil Ltd.</td>
<td>-</td>
<td>-</td>
<td>c</td>
</tr>
<tr>
<td>10</td>
<td>Royce Marine Products Ltd.</td>
<td>-</td>
<td>-</td>
<td>b</td>
</tr>
</tbody>
</table>
b) **Collection of Data:**

A large part of data is collected from the Stock Exchange of Mumbai. Since the data was too large and it was for a period of three years it was not possible to collect all the data at once. So by coordinating with the “Research, Statistics & Publication Department” of Mumbai Stock Exchange, in each meeting the data which was needed for about 25 companies was ordered and in the next meeting it was possible to collect it and order the next 25 companies. And as the data was needed for three fiscal years, the researcher had to go to Mumbai Stock Exchange few months after ending each fiscal year for gathering the data. More than fifteen visits were paid to MSE, to collect the data between October 1997 to October 1999.

Collecting data for the year 1997-98 was delayed because the relevant companies had not dispatched the annual reports to MSE. To collect the data from remaining companies from the researcher’s list, the researcher addressed direct letters to companies to supply annual reports. However, only one company provided the annual report.

Whatever data still remained to be collected was obtained from CMIE-Center for Monitoring Indian Economy. Thus, all data from annual reports of 96 companies was collected only in November 1999. Thus the final sample is 96 companies in all respects.

c) **The Scope of the Study:**

The scope of this study extends to all groups of companies all over India, which are listed in Mumbai Stock Exchange. So data obtained
from annual reports, has been restricted to three years only. Because according to clause No. 32 of Mumbai Stock Exchange, all the listed companies whose annual report would be approved after 31st March 1996 would be required to include a Cash flow statement in their annual reports. So the annual reports before this date would not be relevant.

Thus the relevant data for 96 companies has been collected for three years, 1995-96, 1996-97 and 1997-98. The scope of study is thus restricted to the years 1996 till 1998.

Accounting data relating to the financial statements has been collected from the following statements:

1) Balance Sheet,
2) Profit & Loss Account,
3) Schedules related to Balance sheet & Profit and Loss,
4) Notes to Accounts,
5) Accounting Policies and
6) Cash flow Statement.

**d) Methodology of Research:**

Data collected from 96 sample companies is classified into two broad groups. The process of research method, which is followed in this study, is based on distinguishing reconciled Cash flow versus unreconciled balances in the Cash flow statements. The text of this thesis contains these terms often used with specific meaning in the content of this research. These have been defined and some explanation can be driven from charts and tables.
The methodology of research described here has been applied up to the stage of analysis of the data to find out unreconciled items in the Cash flow statements, in the context of the number of companies and the volume of amount involved in reconciled items. This means that the research is basically grouped into two parts:

1. To identify number of companies who have prepared a “clean” Cash flow i.e. Companies who have reconciled their Cash flow statement perfectly. The researcher did not have any problem in understanding the Cash flow statement prepared by them. This aspect can be described as no problem area.

2. Identification of number of companies who had prepared the Cash flow but the researcher had difficulty in reconciling the Cash flow in spite of permutations and combinations is described as “unclean” Cash flow i.e. Number of companies having outstanding items ranging from 100% to 1% in amount. This aspect is described as the problem area.

The methodology followed in the context of item (2) above is described in this chapter.

d.1) The Definition of Concepts:

The definition of some concepts used in this thesis are given below:

- The definition of “Item”:

  Item means a transaction described in the Cash flow statement under the three main headings, i.e. 1) Operating activity, 2) Investing activity and 3) Financing activity.
• The definition of “Defaulting Companies”:

It was expected by the researcher that the reconciliation exercise, i.e. Reconciliation between Profit & Loss account, Balance sheet, Notes to accounts and Cash flow statements, would be simple because companies will prepare it after reconciliation, and if there are any adjustments due to regrouping of items in certain Balance sheets, it would be indicated in the form of a footnote. However, it has been noticed that in spite of the efforts of the researcher it is not possible to reconcile.

Those companies where such reconciliation couldn’t be arrived at are termed as “Defaulting Companies”.

• The Concept of “Unreconciled Balance”:

Unreconciled balance has been identified as shown in the following flow chart:
How-Chart
"Reconciling Cashflow statement"

B/S means Balance Sheet
PL means Profit & Loss account
d.2) The Process for Information of Cash flow:

The process that has been followed for reconciling the amounts of Cash flow with the information disclosed in annual reports has been shown in the chart below:

"Information Flow-chart"

![Diagram showing the process for information of cash flow]

- Analysis of Annual Reports
  - Balance sheet
  - Profit & Loss account
  - Schedules
  - Notes to account
  - Cash flow statement
  - Information to be used for inference

d.3) The Method of Adjustments Regarding the Items:

Some times, some items need to be adjusted by other balances in Profit & Loss account and Balance sheet. In this part the method that
has been followed for adjusting these items has been explained. However, only a few items, which are often repeated as unreconciled items, have been used for illustration. This is not an exhaustive list, but an illustrative one. In the following list “CL” means closing balances, “Op.” means opening balance and “sch.” means schedules.

### I. Interest Paid:

<table>
<thead>
<tr>
<th>Description</th>
<th>Where to Identify?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Expense</td>
<td>** - P/L account</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>- CL. Balance of interest accrued but not due</td>
<td>(** - Current liabilities</td>
</tr>
<tr>
<td>- CL. Balance of Interest accrued and due</td>
<td>(** - Loaned fund</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>-Op. Balance of interest accrued but not due</td>
<td>** - Current liabilities</td>
</tr>
<tr>
<td>-Op. Balance of interest accrued and due</td>
<td>** - Loaned fund</td>
</tr>
<tr>
<td>- Interest capitalised</td>
<td>** - Pre operative expenses</td>
</tr>
</tbody>
</table>

** Interest Paid (outflow) during the year |  

### II. Interest Received:

<table>
<thead>
<tr>
<th>Description</th>
<th>Where to Identify?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>** - P/L account</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>-CL. Balance of interest receivable</td>
<td>(** - Other current assets</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>-Op. Balance of interest receivable</td>
<td>** - Other current assets</td>
</tr>
</tbody>
</table>

** Interest Received (inflow) during the year |  


III. Direct Tax Paid:

 Provision for taxation for current year ** - P/L account

 Less:

 - CL. Balance of advance payment of tax (**) - Loans and advances
 - Refund of excess tax (**) - P/L account
 - Adjustment relating to tax of earlier years (**) - P/L account

 Add:

 - Adjustment relating to tax of earlier years ** - P/L account

 Tax Paid (outflow) during the year ****

IV. Dividend Paid:

 Dividend proposed for the year ** - P/L account (Appropriation)

 Less:

 - CL. Balance of provision for dividend (**) -Current liabilities and Provisions
 - CL. Balance of unclaimed dividend (**) - Current liabilities

 Add:


 Dividend Paid (outflow) during the year ****
V. Trade Payable and Provisions:

Clubbed/ merged with:

CL. Balance of current liabilities

Less:
- CL. Balance of unclaimed dividend
- CL. Balance of interest accrued but not due
- CL. Balance of share application money refund


Less:
- Op. Balance of unclaimed dividend
- Op. Balance of interest accrued but not due
- Op. Balance of share application money refund

a) The changes in trade payable

Provisions:

CL. Balance of provisions

Less:
-CL. Balance of provision for taxation
-CL. Balance of provision for dividend
-CL. Balance of provision for tax on dividend


-Op. Balance of provision for taxation
-Op. Balance of provision for dividend
-Op. Balance of provision for tax on dividend

b) The changes in provisions

Changes of Trade payable in Working Capital adj. = a + b

5 Depending upon how the application money is appropriated
### VI. Loans and Advances:

<table>
<thead>
<tr>
<th>Clubbed/ merged with:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CL. Balance of loans and advances</strong></td>
</tr>
<tr>
<td><strong>Less:</strong></td>
</tr>
<tr>
<td><strong>-CL. Balance of intercorporate deposits</strong> (**) - Separately shown in Financing</td>
</tr>
<tr>
<td><strong>-CL. Balance of loan to subsidiary companies</strong> (**) - Separately shown in W/C adj.</td>
</tr>
<tr>
<td><strong>-CL. Balance of advance tax paid</strong> (**) - Direct tax paid</td>
</tr>
<tr>
<td><strong>-CL. Balance of deposit with financial institution</strong> (**) - Net changes in Cash &amp; Equivalent</td>
</tr>
<tr>
<td><strong>-CL. Balance of share application money pending Allotment</strong> (**) - Separately shown in Financing</td>
</tr>
<tr>
<td><strong>-CL. Balance of share application money refunded(</strong> )** - Separately shown in Financing</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
</tr>
<tr>
<td><strong>--Op. Balance of intercorporate deposits</strong> (**) - Separately shown in Financing</td>
</tr>
<tr>
<td><strong>-Op. Balance of loan to subsidiary companies</strong> (**) - Separately shown in W/C adj.</td>
</tr>
<tr>
<td><strong>-Op. Balance of advance tax paid</strong> (**) - Direct tax paid</td>
</tr>
<tr>
<td><strong>-Op. Balance of deposit with financial institution</strong> (**) - Net changes in Cash &amp; Equivalent</td>
</tr>
<tr>
<td><strong>-CL. Balance of share application money pending Allotment</strong> (**) - Separately shown in Financing</td>
</tr>
<tr>
<td><strong>-CL. Balance of share application money refunded(</strong> )** - Separately shown in Financing</td>
</tr>
</tbody>
</table>

*Changes of Loans & Advances in Working Capita adj. *****

### VII. Purchase of Fixed Assets:

<table>
<thead>
<tr>
<th>Where to identify?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Addition to fixed assets during the year</strong> (**) - Sch. of fixed assets</td>
</tr>
</tbody>
</table>

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6 So far as the Loans and Advances are concerned the practices of different companies differ on the basis of accounting policies followed by them; this is what has been observed in the samples.
Add:

- Op. Balance of Capital work in progress ** - B/S or Sch. of fixed assets
- Op. Balance of Pre-Operative expenses ** - B/S or Sch. of fixed assets

Less:

- CL. Balance of Capital work in progress (**) - B/S or Sch. of fixed assets
- CL. Balance of Pre-Operative expenses (**) - B/S or Sch. of fixed assets
- Depreciation capitalised in pre-operative expenses (**) - Schs. of pre-operative expenses
- Interest capitalised in pre-operative expenses (**) - Schs. of pre-operative expenses

Add (or Less):

- Changes in advance payment of Capital Expenditure ** - Schs. of Loans & Advances
- Changes in outstanding Capital expenditure ** - Schs. of Current Liabilities
- Differences arising due to Foreign Exchange Fluctuations ** - Notes of Fixed Assets or B/S

Purchase of Fixed Assets (outflow) during the year

VIII. Sale of Fixed Assets:

Where to Identify?

Gross Fixed Assets reduced during the year ** - Schs. of Fixed Assets

Less:

- Depreciation on assets sold (**) - Schs. of Fixed Assets
- Loss on assets sold (**) - Schs. of profit & Loss
- Adjustment for revaluation of assets sold (**) - Reserve & Surplus

Add:

- Profit on assets sold ** - Schs. of P/L (other income)

Sale of Fixed Assets (inflow) during the year

Where to Identify?

Schs. of Fixed Assets
- Schs. of Fixed Assets
- Schs. of profit & Loss
- Reserve & Surplus
- Schs. of P/L (other income)
IX. Purchase of Investment:

Addition to Investment during the year

Add:

-Acquired and sold/redeemed during the year
- Provision on reduction in the value

Less:

-Advance payment for purchase of investment

Purchase of Investment (outflow) during the year

Where to identify?

- Schs. of Investment
- Schs. of Investment (notes)
- Schs. of Investment
- Schs. of Loans and Advances

X. Sale of Investment:

Deduction on Investment during the year

Add:

-Acquired and sold/redeemed during the year
- Profit on sale of investment

Less:

-Loss on sale of investment

Sale of Investment (outflow) during the year

Where to Identify?

- Sch. of Investment
- Sch. of Investment (notes)
- Sch. of P/L (other - Income)
- Sch. of P/L

XI. Secured Loan:

CL. Balance of Secured Loan

Less:

-CL. Balance of Cash credit
-CL. Balance of Interest accrued and due
-CL. Balance of Working capital loan
- CL. Balance of Deferred credit facility

Clubbed/merged with:

-Cash & Cash equivalent
- Interest paid
-Separately in short-term borrowing
-Separately in Financing activities
<table>
<thead>
<tr>
<th>Description</th>
<th>(***)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange fluctuation on foreign loan</td>
<td></td>
<td>- Profit &amp; Loss account</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Op. Balance of Cash credit</td>
<td>(***)</td>
<td>- Cash &amp; Cash equivalent</td>
</tr>
<tr>
<td>- Op. Balance of Interest accrued and due</td>
<td>(***)</td>
<td>- Interest paid</td>
</tr>
<tr>
<td>- CL. Balance of Deferred credit facility</td>
<td>(***)</td>
<td>- Separately in Financing activities</td>
</tr>
<tr>
<td>Secured Loan (out/inflow) during the year</td>
<td></td>
<td>****</td>
</tr>
</tbody>
</table>

### XII. Unsecured Loan: Clubbed/merged with:

<table>
<thead>
<tr>
<th>Description</th>
<th>(***)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CL. Balance of Unsecured Loan</td>
<td></td>
<td>**</td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- CL. Balance of Loan from Schedules Bank-ICDs</td>
<td>(***)</td>
<td>- Cash &amp; Cash equivalent</td>
</tr>
<tr>
<td>- CL. Balance of Interest accrued and due</td>
<td>(***)</td>
<td>- Interest paid</td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Op. Balance of Loan from Schedules Bank-ICDs</td>
<td>(***)</td>
<td>- Cash &amp; Cash equivalent</td>
</tr>
<tr>
<td>- Op. Balance of Interest accrued and due</td>
<td>(***)</td>
<td>- Interest paid</td>
</tr>
<tr>
<td>Unsecured Loan (out/inflow) during the year</td>
<td></td>
<td>****</td>
</tr>
</tbody>
</table>

---

7 ICDs means “Inter Corporate Deposits”
### XIII. Cash & Cash Equivalents:

<table>
<thead>
<tr>
<th>Where to Identify?</th>
<th><strong>Where to Identify?</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>CL. Balance of Cash &amp; Bank Balance</td>
<td>**</td>
</tr>
<tr>
<td>Less:</td>
<td>**</td>
</tr>
<tr>
<td>-Bank deposit</td>
<td>(**) -Cash &amp; Bank (B/S)</td>
</tr>
<tr>
<td>-Fixed deposit account</td>
<td>(**)</td>
</tr>
<tr>
<td>-Interest accrued on fixed deposit</td>
<td>(**)</td>
</tr>
<tr>
<td>-Loan from Bank on hypothecation of goods commodities and book debts</td>
<td>(**) -// // // //</td>
</tr>
<tr>
<td>-Balance on margin account</td>
<td>(**)</td>
</tr>
<tr>
<td>-Share application money refund account</td>
<td>(**)</td>
</tr>
<tr>
<td>CL. Balance of cash after above deductions</td>
<td>****</td>
</tr>
<tr>
<td>Less:</td>
<td>**</td>
</tr>
<tr>
<td>-Book over draft</td>
<td>(**) -Secured Loans (B/S)</td>
</tr>
<tr>
<td>-Cash credit from Bank</td>
<td>(**)</td>
</tr>
<tr>
<td>-Bank balance due to reconciliation</td>
<td>(**)</td>
</tr>
<tr>
<td>-Unsecured loan from scheduled Bank-ICDs</td>
<td>(**) -Unsecured Loans</td>
</tr>
<tr>
<td>-Cheques issued but not presented</td>
<td>(**)</td>
</tr>
<tr>
<td>Add:</td>
<td>**</td>
</tr>
<tr>
<td>-Deposit with Financial institution</td>
<td>** -Loans &amp; Advances</td>
</tr>
<tr>
<td>-Advance imprest</td>
<td>** -// // // //</td>
</tr>
<tr>
<td>-Bills of Exchange</td>
<td>** -// // // //</td>
</tr>
<tr>
<td>-Inter corporate loans</td>
<td>** -// // // //</td>
</tr>
<tr>
<td>-Bills receivable</td>
<td>** -// // // //</td>
</tr>
<tr>
<td>-Short term deposit</td>
<td>** -Other current assets</td>
</tr>
<tr>
<td><strong>CL. Balance of cash and equivalent of cash</strong></td>
<td>****</td>
</tr>
</tbody>
</table>

---

Same method has followed for Opening Balance of cash & equivalent of cash.
d.4) The Steps of Processing the Data:

Methodology adopted for analysis of the data is based on two aspects:

1. Quantitative analysis
2. Qualitative analysis

♦ Quantitative analysis takes into consideration the frequency distribution of unreconciled aspects of the items of Cash flow statement.
♦ Qualitative analysis gives another dimension to quantitative data based on values in Rupees terms.

Data gathered from the annual reports is processed on the basis of the following steps:

➢ Step One:

Annexure I on page 143 contains a list of companies, which gives the idea of sample size. Computer has been fed details of Cash flow statements of each individual company in the sample as represented by the serial number from the list.

Table 3.2, given below indicates the number of annual reports of companies, which were reconciled without any detailed adjustment and reconciliation with other financial statements with numerous adjustments.

All financial statements in the data have been passed through the different tables described earlier. Yet some data has remained
unreconciled. Conclusions regarding utility of information provided by Cash flow statement have been drawn from reconciled and unreconciled data.

Table 3.2: “Sample (annual reports) Reconciled & Unreconciled data year-wise”

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Cash Flow &amp; Balance-Sheet Reconciled</th>
<th>Cash Flow &amp; Balance-Sheet Unreconciled</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Companies</td>
<td>%</td>
<td>No. of Companies</td>
</tr>
<tr>
<td>1995-96</td>
<td>46</td>
<td>0.48</td>
<td>50</td>
</tr>
<tr>
<td>1996-97</td>
<td>45</td>
<td>0.47</td>
<td>51</td>
</tr>
<tr>
<td>1997-98</td>
<td>44</td>
<td>0.46</td>
<td>52</td>
</tr>
</tbody>
</table>

A list of sample companies with reconciled data is concluded in Appendix 3 on page 135.
Appendix 4 contains a list of companies not reconciled for one year, on page 137.
Appendix 5 contains a list of companies not reconciled for two years, on page 138.
Appendix 6 contains a list of companies not reconciled for three years, on page 139.

➤ Step Two:
Every sample company has provided the data in a Cash flow statement divided under three major headings and minor headings and subheadings for the major headings.

Considering the variety of data provided by all the sample companies and different nomenclatures used by the companies, some system was
required to be adopted for further classification with symbols to prepare the tables for the classified data. A list of symbols used and the full description appears in Annexure II on page 146.

In Annexure II items described under “A” group have reconciled automatically (directly). Items described under “B” group have reconciled after combination and permutation. Items described under “C” group are the unreconciled items.

In Annexure III on page 147 “Particulars” items have been taken up from the description as those available from various Balance Sheets.

➢ Step Three:

Step three is based on the last item of the step two. Here, items “A”, “B” and “C” are to be reclassified in descending order. The results of this step would be in the form of Annexure IV on page 210, apart from this, this Annexure contains the percentage of “A”, “B” and “C” to total items in the sample which should help in knowing the significance of efforts required for reconciliation for item “B” and item “C” indicates the real raw material for this research.

➢ Step Four:

Step four contains statistics relating to number of companies having unreconciled data for the three years under study. It means in 1995-96, 51 companies; 1996-97, 52 companies; and 1997-98, 52 companies presented their Cash flow with unreconciled data. The unreconciled data refers to specific particulars as they appear in Cash flow statements,
under headings and subheadings, to find out the frequency distribution of unreconciled aspects of specific particulars of the Cash flow. A statement has been prepared in Annexure V on page 234, and the data is classified into two main aspects:

I. Vertical subtotal,
II. Horizontal subtotal.

I. The vertical subtotal indicates the following:

a) The figures in the top column on each page indicate the serial number of the company as explained in Appendix 3.
b) The symbols used in the next vertical column explained in the characteristics of classification as explained in the step two above.
c) Figures highlighted in colour indicate the frequency distribution of the area of unreconciled items in quantity (number). For example, company No. 35 has only one problem relating to net profit and adjustment relating to reconciled income to net cash.
d) A horizontal total indicates the total number of companies, which have unreconciled data.

II. The horizontal subtotal indicates the following:

a) This consists mainly the three columns at the horizontal end of the table, namely “U”, “Total” and the percentage of “U” to “Total”.
b) The purpose of these three columns is to find out the frequency (in descending order) of the most and the least unreconciled areas of particulars in the Cash flow.
Step Five:

Statistics generated relating to unreconciled aspects of Cash flow derived from step one to four, automatically forms the subject matter of analysis of these data. This is supported by the quantified results in terms of value in Rupees as denoted by Annexure VI on page 254.

d.5) Primary Data:

This thesis has used secondary data to fullest extent by analysing published Balance sheets of corporations taken up as sample. There was no need of generating any primary data, because even doing full justice to the data available could not be achieved.

The researcher wanted to be sure regarding the process of reconciliation of Cash flow information with financial information provided by the Balance sheets. To achieve this purpose the researcher had sent three letters to the following corporations:

1. Tata Engineering & Locomotive Company Ltd.- Telco
2. Bharat Forge Ltd.
3. Cummins India Ltd.

Appendix 7 on page 141 contains the proforma of these letters.

The researcher received no response from the addresses. However, only one company i.e. Telco Ltd. Telephoned and requested to provide some additional time to concede to the request. On 27 April 2000 the
researcher sent first reminder to the addresses. No reply has been received till this date.

The researcher had approved only local companies to ascertain whether primary data of this nature could be generated. This suggests the difficulty in generating primary data even of such a low order.

d.6) Statistical Techniques:

In analysis of collected data, the researcher has employed simple statistical techniques, such as classification and frequency distribution, measurement of results on the basis of percentages, etc. The researcher could not employ any other statistical techniques such as standard deviation, correlation and regression basically because of paucity of data for a longer time. The reason for collecting data for only three years has been explained elsewhere in this thesis.

IV. The Hypothesis:

The hypothesis formulated before the beginning of the study is:

“It is doubtful if Cash flow statement adds any more information than what is collected through Balance sheet to its users though the information is more analytical. A detailed investigation regarding its quality may reveal what it lacks.”
V. Relevance of the Study:

The relevance of the study should be considered from the point of view of the following aspects:

a) The Mumbai Stock Exchange has made the statement compulsory for all listed companies.

b) A conclusion that can be drawn from (a) above is other financial statements, included in the annual reports, do not disclose enough information to investors, about cash generated and utilised, or liquidity which is very vital from the point of view of investors and lenders.

c) Such information pertains to basically liquidity generated through:
   - Operations
   - Investments
   - Financing

d) The relevance of Cash flow statements studied would be pointed out through the results of the study.

V. Limitations of the Study:

The following limitations have been noticed regarding this study:

a) In this study, just three years (1996-1998) information has been used.

b) Sample studied has not been compared with population. Total companies in India in an industry category have not been considered.

c) Only listed companies that have been chosen on sample of “Capital Market journal” have been used in this study and the results are restricted to sample chosen.
d) This study does not include sample companies, which have prepared consolidated Cash flows, because annual reports of sample companies do not have subsidiary companies.

e) The results obtained in this study are based on data analysis. Any changes in the above situation may lead to different results. But the results of this study depend upon the data analysed based on the sample available.

f) This research contains data on sample companies for a period of only three years. Therefore, for establishing correlation between three components of the Cash flow between each other and their interdependence has not been tested for want of long-term information of each segment.

g) While analysing the sample data, it was noticed that all the sample data could not be reconciled 100%. A statement regarding year-wise reconciliation is shown in table 3.2, on page 63. Due to constraint of time analysis had to be restricted to only reconciled data. A general effort was made to see if permutation or combination of probable figures of adjustments could help in reconciling the unreconciled data. Such efforts have not been successful, therefore, vast unreconciled data had to be overlooked and this is the greatest limitation of the study.

In the context of unreconciled data the area of nonreconciliation has been indicated with reference to the relevant sample in the relevant years in the chapter IV of results of study.