

An assignment on

**A STUDY ON CASH FLOW STATEMENT ANALYSIS WITH
SPECIAL REFERENCE TO JET AIRWAYS**

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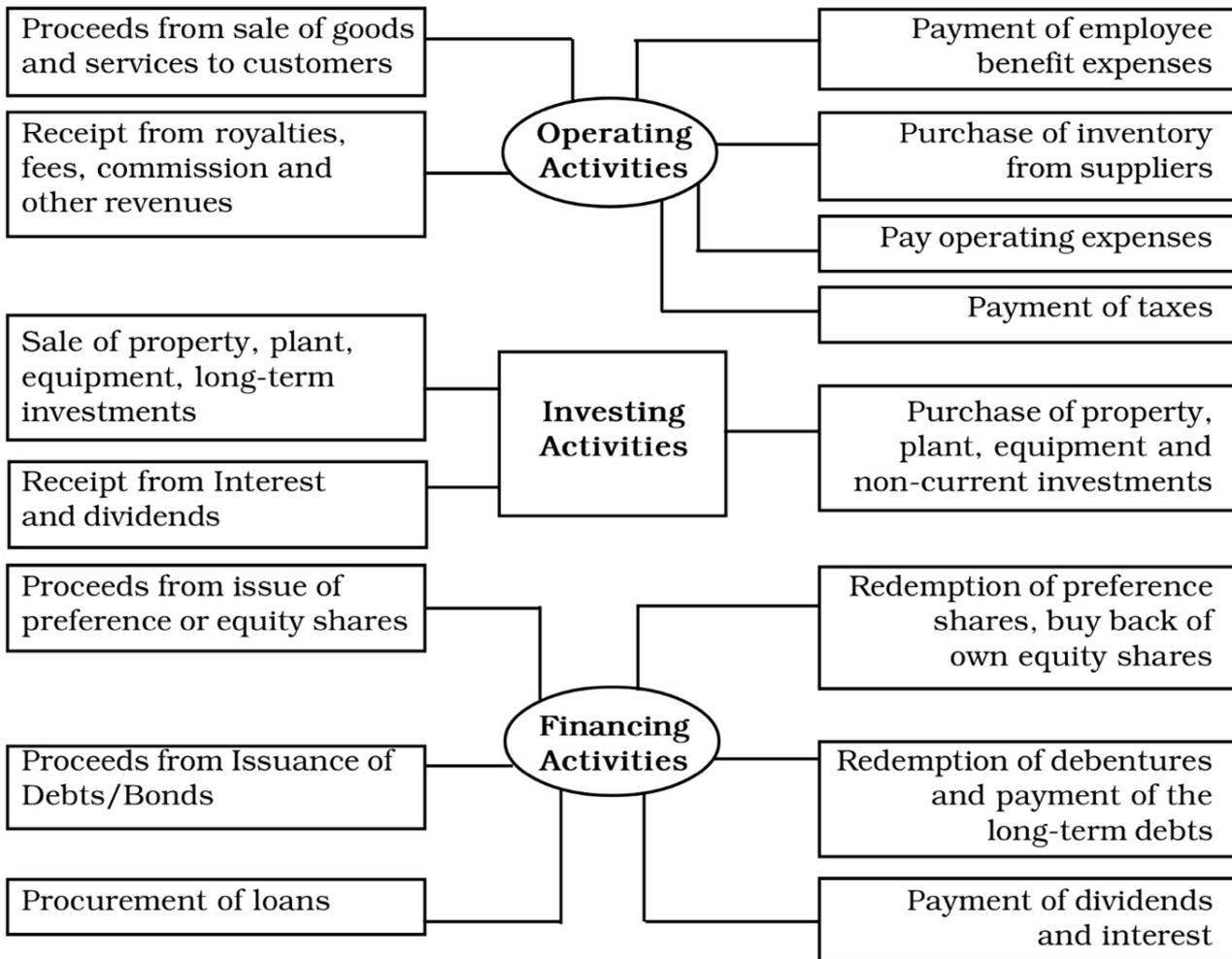
ABSTRACT:

In the developing world there are many firms which have been opened but there are only a few firms which are able to withstand. Few firms have more assets and less cash and vice versa (i.e., the working capital will be in a good position) but they will not be able to pay the tax, repay the debt and so on, due to the fact that the cash at hand or liquid assets will not be available for that firm. So, to avoid this situation the cash flow system is introduced which gives the idea of how to use the working capital in such a way so that the firm will not meet with the inadequacy of the cash. Based on the cash flow statement a firm can forecast its profit for the forthcoming periods (days, months and next year). This research paper concludes that the cash flow statement is not similar to the income statement but it can be used as a source for computing the cash flow statement.

KEYWORDS: cash flow, liquid assets, forecasting the profit.

INTRODUCTION:

The cash flow is also known as Statement of Accounting for Variation in Cash and Secondary Data. The cash flow statement studies about to the movement of the working capital funds (includes cash and non cash things like assets, liability, etc) like cash inflow (Income of the cash) and cash outflow (usage of the money).

Cash Inflows**Cash Outflows**

The cash flow statement is based on the funds but not in a deeper manner as compared to funds flow statement. Thus, the cash flow statement gives the overall picture of the financial position of the firm based on the cash like cash owed to pay for creditors, bank loan, taxes and dividend for shares, etc and revenue of the firm. The cash flow statement is applicable for the short term financial planning and it is void in the long term financial planning. The concept of cash basis accounting is applied in the cash flow statement. The cash flow statement can be prepared based on the balance sheet of the starting and ending period, the income statement and some additional data which includes the transactions which is not included in the books. According to the Revised Accounting Standard-3 the cash flow statement can be prepared from three steps, they are 1.)Operating (revenue generating) activity, 2.)Investing (payment for purchase and the income for the sale of the fixed asset) activity and 3.)Financing activity (changes in size and composition of the equity and the borrowings of the owner). The cash flow statement explains about the changes in these three activities. Among many financial statement, the cash flow statement is considered as a standard one. The liquidity of the firm can be identified with the help of this statement. According to Generally Accepted Accounting Principles says that "The most important aim of Cash Flow Statement is give the relevant data for receipts and payments for the cash which is used". The adjustments like expenditure and income included in the operating activity are just incurred but not paid or received. According to Australian Accounting Standards Board "The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation". If an outsider invest his/her share in a firm they focus on the flow of the cash not on the stocks in that firm, therefore cash plays an major role in a firm. Hence the flow of the cash is clearly defined by this statement. There are two methods to prepare the cash flow statement

- i) Direct method and
- ii) Indirect method.

DIRECT METHOD:

The direct method includes all direct income and expenditure. In the direct method the cash flow statement is computed by deducting the cash sales from cash expenses. In the direct method the each income statement is converted directly into a cash basis, and each effect is directly reported. In this method once the cash inflow and outflow from operating activities is calculated then it is added to the “Operating Activity” section of the cash flow statement to obtain the net cash flow for a company’s operating activity.¹

Format for estimating Net Cash flows from Operating Activities (Direct Method)

Particulars	<i>Amount (Rs)</i>	Amount (Rs)
Cash sales	...	
Cash receipts from customers	...	
Cash paid to suppliers	...	
Cash paid to employees	(...)	
Cash paid to expenses	(...)	
Cash generated from operations	...	
Income – tax paid	(...)	
Cash flows before extra-ordinary items	...	
Proceeds from earthquake disaster settlement	...	
Net cash from operating activities		...

¹<https://www.boundless.com/accounting/textbooks/boundless-accounting-textbook/detailed-review-of-the-statement-of-cash-flows-14/calculating-cash-flows-90/preparation-of-the-statement-of-cash-flows-direct-method-401-7322/>

INDIRECT METHOD:

Indirect/add back method for calculating cash flow, the accrual basis net income is established first. This net income is then indirectly adjusted for items that affected the reported net income but did not involve cash. The indirect method adjusts the net income for the following phenomenon: i) changes in current assets, ii) changes in current liabilities and items that were included in the net income but did not affect cash.²

Format for estimating Net Cash flows from Operating Activities (Indirect Method)

Particulars	Amount (Rs)	Amount (Rs)
Net Profit before taxation and extra-ordinary items	...	
Adjustments for:		
Depreciation	...	
Loss on Sale of Assets	...	
Foreign Exchange Loss	...	
Profit on Sale of Assets	(...)	
Interest Expense	...	
Income from Investments	(...)	
Operating Profit before Working Capital Changes	...	
Increase in Current Assets	(...)	
Decrease in Current Assets	...	
Increase in Current liabilities	...	
Decrease in Current liabilities	(...)	
Cash Generated from Operations	...	
Income-tax Paid	(...)	
Cash Flows before Extra-ordinary Items	...	
Proceeds from Earthquake Disaster Settlement	...	
Net Cash from Operating Activities		...

²<https://www.boundless.com/accounting/textbooks/boundless-accounting-textbook/detailed-review-of-the-statement-of-cash-flows-14/calculating-cash-flows-90/preparation-of-the-statement-of-cash-flows-direct-method-401-7322/>

Treatment of Special Items:³

Apart from the general classification of three types of cash flows , AS-3 provides for the treatment of cash flows of certain special items.

(1) Foreign Currency

Cash flows arising from transactions in a foreign currency should be recorded in an enterprises reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow.

(2) Extraordinary Items:

The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

(3) Interest and Dividends:

In the case of financial enterprises, cash flows from interest paid and received and dividends received should be treated as cash flows from operating activities.

In the case of non-financial enterprises, cash flows arising from interest and dividends received should be treated as cash flows from investing activities. But the cash flows arising from interest paid should be classified as cash flows from financing activities.

However, the dividends paid should be classified as cash flows from financing activities whether the enterprise is financial or non-financial.

(4) Taxes on Income:

Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

(5) Investments in Subsidiaries Associate and Joint Ventures:

When accounting for an investment in an associate or a subsidiary or a joint venture , an investor restricts in reporting in the cash flow statement to the cash flows between itself and the investee/joint venture, for example, cash flows relating to dividends and advances.

(6) Acquisitions and Disposals of Subsidiaries and Other Business Units:

The aggregate cash flows arising from acquisition and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities.

³Financial Management, Chandra Bose, pg.no: 386-387.

(7) Non –Cash Transactions:

Investing and financing transactions that do not require the use of cash or cash equivalents should be executed from a cash statement.

The following are the examples of non-cash transactions:

- (a) Acquisition of assets by assuming directly related liabilities
- (b) Acquisition of an enterprise by means of issue of shares.
- (c) Conversion of debt to equity.



REVIEW OF LITERATURE:

1.) Aghdas Jafari Motlagh, (2013)⁴ "According to him in his study he studies about how statement of cash flow is prepared and how it is differentiated from funds flow statement. The study used the secondary data collected from various websites, journals, etc. The found that funds flow statement is not useful in short term financial planning like cash flow statement because the cash is more important for execute the plan in short run as compared to working capital.

2.) Thomas Zeeker and Brian Stanko, (1990's)⁵ "This research paper studies about whether the cash flow ratio is useful for the financial ratio analysis of retail sellers. The study used the primary data to conduct this research. The study found that the cash flow statement for retail sellers is useful to find out the financial ratios and it is also found that not only based the accrual basis of accounting, the new and traditional accounting methods should be implemented to assess the economic status or financial position of retail firm.

3.) Ajay Paliwal, Mukesh Ahirrao and Rana, (2015)⁶ "According to him, the term cash flow statement is an important tool to analyze the financial performance of a firm and the cash flow changes can be identified only by comparing the financial position of a firm for two years. The study found the net changes in net cash in cash and its distribution in three business activities and also found the strength and weakness in cash flow statement.

4.) Jeffrey Hales and Steven Orpurt, (2013)⁷ "According to them they analyzed that though many financial statement users have given more importance to direct method, some of the financial statement users have given importance to indirect method of cash flow statement. They found that the direct method information is economically significant and that the recurring benefits that many firms derive from providing direct method information likely exceed recurring cost.

⁴Accounting- Cash Flow Statement, IOSR-JBM, Vol. 7, Iss. 4, 2013, pp:109-116.

⁵Operating cash flow ratios measure a retail's firm "Ability to Pay", Journal of applied business research, Vol. 10, Iss. 4.

⁶Cash Flow Statement: Comparative Analysis of Financing, Operating and Investing Activities, IJSSBT, Vol. 3, Iss. 2, 2015.

⁷A review of Academic research on the reporting of the cash flow from the operations, AAA journals, Vol. 27, Iss. 3, 2013.

RESEARCH METHODOLOGY:

This research paper adopts the descriptive method of study, where it has the cashflow statement in Jet Airways for the term of five years from 2011 to 2015. The research was conducted by using the secondary data collected from various websites, articles, journals, books, etc.

OBJECTIVE:

- To study about the statement of cash flow in Jet Airways.
- To know about the financial performance in Jet Airways.

HYPOTHESIS:

The secondary data which is used to identify the flow of cash and cash equivalents is not similar to income statement.

IMPORTANCE:

The cash flow statement is useful in terms of giving the overall idea about how much cash is received or earned due to financing activities and how much profit is gained from various capital investment activity.

LIMITATIONS:

- The researcher was not able to do the ground work.
- The research is only to study the cash flow statement and not the financial position of Jet Airways.

COMPANY PROFILE

Jet Airways Airbus A340-300 With the 1993-2007 livery at London Heathrow Airport in 2005

Jet Airways, which commenced operations on May 5, 1993, is a full service airline with one of the youngest fleets in the world, operates a network that includes flights to 76 destinations spanning the length and breadth of India and destinations in Europe, North America (USA & Canada), the Middle East and Asia. The airline flies to 63 destinations spanning the length and breadth of India and beyond, including New York (both JFK and Newark), Toronto, Brussels, London (Heathrow), Hong Kong, Singapore, Kuala Lumpur, Colombo, Bangkok, Kathmandu, Dhaka, Kuwait, Bahrain, Muscat, Doha, Riyadh, Jeddah, Abu Dhabi and Dubai. Jet Airways is an Indian Airline based in Mumbai. It is the second largest airline in India, both in terms of market share and passengers carried, after IndiGo.

Jet Airways was incorporated on April 1, 1992 as a private company with limited company under the Companies Act. We commenced operations as an Air Taxi Operator on May 5, 1993 with a fleet of four leased Boeing 737 aircraft. We are granted scheduled airline status on January 14, 1995. Jet Airways became a deemed public company on July 1, 1996. On January 19, 2001, Jet Airways was reconverted into a private company. Jet Airways became a public company on December 28, 2004.

At the time of incorporation of the company, our shareholders were Mr. P.V.V Chalam and Mrs. Anita Goyal. These shares were transferred to Tail Winds on May 12, 1998, and Mr. Naresh Goyal holds them on behalf of Tail Winds in terms of an RBI approval letter dated in December 30, 1993.

The company's primary hub and maintenance base is at Mumbai, whereas Delhi, Kolkata, Chennai, Pune, Bengaluru and Brussels are its secondary hubs. Jet Airways operates flights to 20 international destinations, offering a better choice in the skies. The airline's service class comprises Première-business branded for domestic sectors and First Class, Première-business class branded for international sectors. It has earned the distinction of receiving the IATA Operational Safety Audit (IOSA) Registration. The company has successfully completed the Operational Safety Audit and has entered into the IOSA Registry. Jet Airways also offers an exclusive portal for travel agents—www.9wagents.com. Jet Airways has launched an Interactive Voice Response (IVR) based payment and ticketing service.



**Jet Airways Boeing 737-700 with new livery
at Srinagar Airport in 2015**

The airline has adopted this unique IVR technology to make payment and ticketing service easily accessible to its passengers. The airline has interline agreements with over 133 international airlines, which allow passengers to use interline documents on Jet Airways for their travel. The company's subsidiaries include Jet Lite (India), Jet Airways LLC, Trans Continental e Services, Jet Enterprises, Jet Airways of India Inc, India Jetairways Pty and Jet Airways Europe Services N.V.

In 2013 Jet Airways entered a Strategic Alliance with Etihad Airways, a transaction for the subscription of 24 per cent minority equity stake in Jet Airways. Etihad Airways and Jet Airways will combine their network of 130 destinations, with Jet Airways establishing a Gulf gateway in Abu Dhabi and expanding its reach through Etihad Airways' growing global network. Airline overview based in Mumbai .

Services:

- It provides services such as airport lounges, bus services, coach services, complimentary chauffeur drive services.
- It has created Jetkids, programme for kids between 2 years to 12 years that offers gift and offers while there are travelling in airplanes. It also offers services like Jetmobile, JetEscapes, Cargo, etc.

- Jet Airways provides services such car rentals, hotels, conversion services, retails services, telecommunications, etc.
- To provide these services it has partnered with various companies such as Air France, American Airlines, Citi, HDFC Bank, ICICI Bank, HSBC, Hyatt, Hilton Hotels, The Leela, Marriott, Oberoi Hotels & Resorts, The Park, Ferns n Petals, matrix, are amongst others.

Awards:

- Jet Airways wins top honors at Global Traveller Wines on the Wing awards.
- Jet Airways wins prestigious Monitor award in Bangladesh. Adjudged Best In-flight Meal in Economy for 2012.
- Jet Airways declared Best Domestic Airline at CNBC Awaaz Travel Awards 2013
- Jet Airways' JetPrivilege wins double honors at the prestigious Freddie Awards 2013
- Jet Airways wins prestigious 6th loyalty award 2013
- Jet Airways launches Daily Direct Services from Mumbai to Paris in 2014.
- Jet Airways wins Prestigious ICC Supply Chain and Logistics Excellence Awards 2014.
- Jet Airways launches Inaugural Service between Mumbai and Paris 214.
- Jet Airways Jet privilege Program wins double honors at the prestigious CNN Flvertalk Awards 2014.
- Jet Airways wins Best Domestic Airline award 2014.

We currently provide regular scheduled services to 42 destination in India and two destinations outside India, operating 1,924 flights weekly. Our aircraft fleet has grown from four aircraft in 1993 to currently 42 aircraft comprising 34 Boeing 737 aircraft and eight ATR72-500 aircraft.

In 2004 – South African Airways ties up with Jet Airways

- Jet Airways inks pact with Hertz India to offer new services
- Jet Air announces launch of 'check fare'sscheme.

CHAPTERIZATION

Financial Performance of the company:

The financial performance of a company can be determined by the financial statement. The financial statement is of three types i) Income statement, ii) Balance sheet and iii) Cash flow statement.

i)Income Statement:

Jet Airways was facing loss for the past two years (not including the profit after tax, depreciation for the assets, interest, etc.) i.e, the operating profit for the company in the year 2015 is -115.95 and for the year 2014 it is -1,484.65 and for the years 2013, 2012 and 2011 the operating profit is 902.93, 225.42 and 1,692.97. Tho company was profited only in the year 2011 except this year all the four years it faced loss though it had a good operating profit.

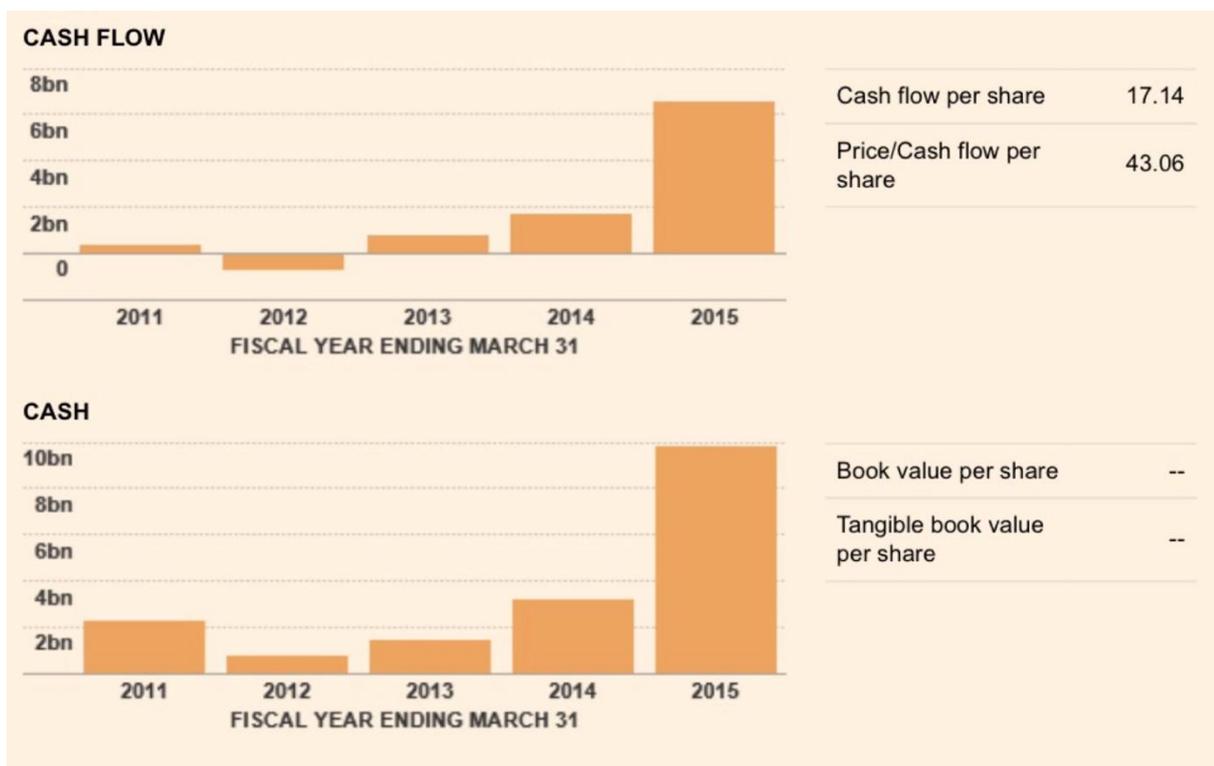


ii)Balance Sheet:

The total liability of Jet Airways has been gradually decreased from 12,337.39 to 5,845.94 for the give period of five years and at the same time the total assets of the firm is also reduced from the 12,337.39 to 5,845.94. The total debt of the firm is 11,500.69, 10,867.75, 8,821.19, 8,85.79 and 10,251.59 from the year 2011-2015. From this it is clear that the company's financial performance can be identified.

**iii)Cash Flow Statement:**

The opening cash and cash equivalents of the firm is 110.60, 145.61, 69.39, 142.12 and 295.18 and the net increase or decrease of cash and cash equivalent is 35.01, -76.22, 72.73, 153.06 and 660.34 from 2011-2015. The closing cash and cash equivalents are 145.61, 69.39, 143.12, 295.18 and 955.52. From this opening and closing cash and cash equivalents are known for Jet Airways.



For the term of five years from 2011-2015 the net cash obtained from the operating activities are 52,803; 92,126; 1,83,904; 2,24,061 and 1,31,864. The net cash from investing activity is 17,245; 34,157; 1,67,724; 29,343 and 1,383 and the net cash used for the financing activity is 66,034; 15,306; 7,273; 7,622 and 3,501.

SUMMARY:

The cashflow statement show how the cash and cash equivalents has been used in the firm, if the cash inflow is lower than the cash outflow then the company has used the cash and cash equivalents in such a way to get the profit for the company and if it is higher than the cash outflow then the company faces the loss. The cash flow statement is identified from the three activities like operating activity, investing activity and financing activity.

FINDINGS:

1.)The company has no effect on the foreign exchange fluctuation, cash and cash equivalents of subsidiaries under liquidations.

2.)The company do not offer the preference share capital to the share holders, miscellaneous expenses and deposits.

3.)The company uses the cash and cash equivalents more in the fuel and power cost compared to the workers salary.

4.)The customers or passengers are increased to 1,76,460 billion people in 2015 when compared to 1,46,876 billion people in 2011.

5.)The aircrafts of Jet Airways are gradually increased for the term of five years from 2011-2015.

CONCLUSION:

The cash flow statement shows the details of change in (increase/decrease) of the cash and cash equivalents in operating activities, investing activities and financing activities as well as net change of the cash and cash equivalents in the special treatments. It also contains the net change in cash during the period. When the opening cash and cash equivalents are added to this net change the sum to be obtained is the closing balance of the cash and cash equivalent.⁸ The income statement is used to find out the difference between the revenue and income of the firm whereas the cash flow statement is used to find out the usage of the cash in the firm for the given period of time. The cash flow statement gives the clear idea about the usage of the working capital. Therefore the hypothesis of the research is proved that the cash flow statement is not similar to the funds flow statement. The cash flow statement is considered as a standard financial statement, the financial performance of the company can be identified. Some managers can't able to manage the cash and cash equivalents and they will not be able to invest their share in the expertise firm to get the profit. Therefore, the cash flow statement will be very useful to such managers.

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⁸Financial Management, Chandra Bose, pg.no: 387.