THE ROLE OF CASH FLOW IN EXPLAINING THE CHANGE IN COMPANY LIQUIDITY WITH REFERENCE TO INDIAN TELECOM COMPANY

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ABSTRACT

The purpose of study is to examines the A greater interest in assessing a company's liquidity and cash flow has emerged in recent years as a result of the growth in corporate bankruptcy. The measurement of current liquidity is frequently of interest to credit analysts and other consumers of accounting data who are assessing a firm's financial status. The purpose of this study was to assist decision-makers, particularly those who are concerned with factors impacting liquidity, by examining the accounting information in the reports by listed businesses for telecom company and its cash flow and company liquidity.

Keywords: *cash flow , company liquidity*

I. INTRODUCTION

The surge in corporate bankruptcies in recent years has heightened interest in assessing a company's liquidity. When assessing a company's financial state, credit analysts and other consumers of accounting data are frequently concerned with accurately measuring present liquidity as well as forecasting future liquidity. It is possible to assess liquidity using both historical and present data when there are trends in a company's liquidity condition. These indicators are frequently used to assess the company's financial health and assess its capacity to pay debts, including the possibility of bankruptcy. Since liquidity is regarded as a key input for financial choices, it is important to determine which method has a better ability to explain liquidity: cash flows or earnings, which include accruals. International Accounting Standards (IAS) 7's cash flow offers the ability to assess a company's liquidity and capacity to meet both short-term and long-term obligations.

STATEMENT OF THE PROBLEM

The majority of businesses have cash flow issues occasionally. One of the easiest methods to identify these issues and find solutions is through a cash flow statement. There is no one approach that will always work. Instead, the foundation for resolving cash flow issues is a combination of solutions. Profitability is not adversely affected by the tactics adopted. Treatment of cash flows issues at the expenses of profit is a temporary fix that could have negative long term consequences. Increasing profitability Low profitability may be having the larger issue, of which cash flow issues are merely a symptom where the company liquidity would be having the cash flow.

OBJECTIVE OF THE STUDY

1. To understand a company's ability to anticipate and explain future performance, particularly with regard to liquidity, using cash flow.

2. To understand the instruments used to measure liquidity and how they could reflect the company's level of liquidity.

3. The step in conducting a cash flow analysis is to compare the total of outstanding purchases to the total of sales that are due at the end of each month.

II. REVIEW OF LITERATURE

The Role of Earnings, Cash Flows and Accruals in Predicting of Future Cash Flow (Mwila Mulenga, Meena Bhatia) March 2017 cash flow from operations, and profitability all play in forecasting future cash flows, then outlining the technique employed. The research results from this literature demonstrate that the conclusions contradict the claim. Instead, the majority of studies state that operating cash flow is a stronger indicator of future cash flows, while some researchers disagree with the statement.

Investment and Cash Flow: New Evidence. Jonathan Lewellen and Katharina Lewellen 2016 the investment-cash flow sensitivity of American companies between 1971 and 2009. studies add to the body of knowledge in numerous significant ways and offer solid proof that cash flow accounts for investment in ways other than their association to. Even after accounting for measurement error in , a dollar of current-year and prior-year cash flow corresponds to $0.32 of additional investment for firms that are least likely to be confined and $0.63 of increased investment for firms that are most likely to be constrained.

The Usefulness of Direct and Indirect Cash Flow Disclosures GREG CLINCH BALJIT SIDHU SAMANTHA SIN 2022 the three key issues surrounding the value of direct and indirect cash flow reports. First, are components of direct and indirect cash flow related to incremental yearly returns Second, is there a relationship between the operational cash flow components' increased Thirdly, do stated cash flow components linked to returns represent an improvement above estimates derived from other financial statement disclosures.

Net working capital, cash flow and performance of UK SMEs Godfred Adjappong Afrifa (2016) The findings show that there is a significant concave relationship between net working capital and performance when cash flow is absent; however, this relationship shifts to a convex relationship when cash flow is introduced. take into account flow. The findings also demonstrate that although enterprises with cash flow above the sample median exhibit more working capital investment, those with cash flow below the sample median exhibit lower investment in working capital.

Destination-Based Cash Flow Taxation Alan J. Auerbach Michael P. Devereux Michael Keen John Vella 2017 Its objective is expository it outlines the DBCFT, how it might operate, what implications it would have, and some of the difficulties it might encounter in implementation. The study begins by outlining the fundamental workings of the DBCFT before assessing it in light of five factors which is a well-known issue under the VAT but has received less attention under the DBCFT, is then thoroughly examined in the article.

III. DATA AND METHODOLOGY

3.1 VARIABLE DEFINITION AND DATA: the variable are used in this are the dependent was company cash flow and independent was the company liquidity to measures the company cash flow.

3.2 PERIOD OF THE STUDY: Daily profit of each company are collected was 5 years 2012 to 2016 of telecom company.

3.3 LIST OF SELECTED COMPANIES FOR THE ANALYSIS: Five companies are selected are Vodafone idea (vi), airtel, reliance, tata teleservices, den networks

3.4 HYPOTHESIS TESTING

H0:there is no significant relation between cashflow and company liquidity.

H1: there is a significant relation between cashflow and company liquidity.

IV. DATA ANALYSIS AND FINDINGS

Table 4.1 Descriptive Statistics of telecom company

	CFFO	CR	E	QR	WCFO
Mean	848.94	615.116	691.092	614.744	435.762
Median	0.35	0.29	0.23	0.36	0.91
Maximum	10632	10424	10186	9670	9344
Minimum	-7562	-7271	-6461	-7188	-7171
Standard Deviation	6480.703	6317.465	5982.975	5992.411	5869.075
Skewness	0.520644	0.747809	0.95059	0.516992	0.54933
Kurtosis	2.038372	2.300321	2.482563	2.111454	2.161673
BERA	2898.259	2825.256	2675.668	2679.888	2624.73
probability	0	0	0	0	0
Sum	4244.7	3075.58	3455.46	3073.72	2178.81
sum deviation	7142.959	5900.836	6131.128	5753.608	4803.54
observation	5	5	5	5	5

Table 4.2 Correlations Matrixs for telecom company

	CFFO	*CR*	*E*	*QR*	*WCFO*
WCFO	1	0.353071	0.38895	0.316217	0.318008
QR	0.353071	1	0.999096	0.998018	0.999265
E	0.38895	0.999096	1	0.994747	0.99676
CR	0.316217	0.998018	0.994747	1	0.999182
CFFO	0.318008	0.999265	0.99676	0.999182	1

INTERPRETATION

Descriptive statistics for the major variables under inquiry. It shows that the median earnings, working capital derived from operations, cash flow derived from operations, current ratio, and quick ratio all exhibit positive trends. The mean operating cash flow is greater than earnings in both volume and volatility. The higher standard deviation indicates that operating cash flow is more irregular than earnings. Due to the volatility of cash flows, which the accruals technique partially smooths out, earnings may prove to be a more accurate predictor of future performance and cash generating capacity.

The correlation matrix for the study's components is shown. Earnings are highly positively correlated with operating cash flow and working capital from operations. Operating cash flow is significantly positively correlated with working capital from operations, changes in the current ratio, quick ratio, and cash conversion cycle. The Quick Ratio and Cash Conversion Cycle, on the other hand, are inversely related. The Pearson correlation coefficients must be used with caution, though, as they are unable to provide a reliable indicator of linkage that takes into account additional explanatory variables.

V. CONCLUSION

Cash flow from operations can significantly explain the variation in the current and quick ratios in this study, but it is unable to do so for the variation in the cash conversion cycle. discovered that changes in cash flow from operations can considerably account for fluctuations in the current ratio and cash conversion cycle, but not for variations in the quick ratio. Additionally, it was found that there was a poor correlation between the current ratio and cash flows from operations. According to him, higher current ratios but lower operating cash flows are the outcome of larger current assets (cash uses) and smaller current liabilities (cash uses). The results of the study show a positive correlation between current ratio and cash flows from activities.

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