

Cash Flow Statements of Hindustan Unilever Ltd. And I T C Ltd.: A Comparative Study

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Abstract

From the financial year 2004-05, it has become mandatory for all the Indian companies to present Cash Flow Statement in their Annual Reports. Institute of Chartered Accounts of India (ICAI) has issued Accounting Standard-3 (AS-3) for the cash flow statement. According to this, all the cash transactions of the company are classified in three activities i.e. Operating, Investing and Financing activities. Such classification helps the investors and other stakeholders in analyzing the cash flow data. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7) is the International Accounting Standard that deals with cash flow statements. In this paper, a comparative study has been undertaken between two companies of personal care Industry listed on BSE. This study is undertaken to understand the trend and variation amongst the three activities of two selected companies of personal care industry. For this table, charts and statistical tests are utilised.

Key Words: *Cash, Cash equivalents, Operating Activities, Investing Activities, Financing Activities*

1. Introduction

By studying cash flow statements, one can come to know about the capacity of the organizations to generate cash and cash equivalents. It helps the users in comparing the present value of the future cash flows of the different organizations. It removes the effects of using different accounting treatments for the repeated transactions and events. In this way, it improves the comparison of the various enterprises reporting about operating performance. To know about the amount, timing and surety of future cash flows, historical information about cash flow is used. It is also helpful in checking the precision of the past

judgments of future cash flows. It also helps in determining the relationship between cash flow and profitability and the effect of inflation.

Cash flow statements are provided with the other financial statements in the annual reports of the companies. The information provided in these statements helps the users for:

- To find out the changes in net assets of an organization
- To find out the changes in the financial structure of an organization
- To find out the liquidity and solvency position of an organization
- To know about the ability of an organization to make changes in time if the circumstances and opportunities are changing.

In this paper, a comparative study has been undertaken about the cash flow statement between two companies of personal care Industry i.e. Hindustan Unilever Ltd. (HUL) and I T C Ltd..

2. Review of literature

Dr. Dodiya Bhavsinh M. and Gelda Kalpesh (2014) conducted a comparative study between two banks: State Bank of India (a public sector bank) and HDFC Bank (a private sector bank). A comparative analysis of cash flow statement and trend was analysed. In the study, it has been proved that there is no significance difference between operating, investing and financing activities of both the banks. Muthuvelan Mangayarkkarasi (2015) attempted to understand the cash flow analysis of previous consecutive five year's data (2006-10) that was collected from M/s. Pantaloon Retail (India) Limited. In the study, it was established that, the cash from business operations increased gradually from the year 2006-2010. The sources and applications of cash for the year 2010 is increased compared to other years. So the financial position of the firm was good at the year 2010.

Abbasi Habiba (2017) has done A Study & Comparative Analysis of HUL and ITC. In the

research paper analysis was done through various ratios such as per share ratio, Liquidity ratios, profitability ratio during 2010-16. In the research it was established that, the shareholders of HUL have earned much better dividend over the years as compared to ITC. Further, it was found out that Operating profit per share of ITC has increased from 16.06% to 17.69% during 2010-16. While that of HUL has increased from 6.50% to 26.48 during 2010-16. In the case of Operating margin, Gross profit margin, Net profit margin, current assets and stock or inventory turnover ITC has a better picture to offer. ITC appears to be in a much better position.

On an above my observation, about these companies (HUL Ltd. and ITC Ltd.) have not yet done any Cash flow statement analysis for the year 2014-15 to 2018-19.

3. Research methodology

3.1 Sample selection

For the purpose of the study two (2) companies Hindustan Unilever Ltd. (HUL) and ITC Ltd. have been selected.

3.2 Period of study

The study is conducted for a period of five (5) financial years i.e. from 2014–15 to 2018–19.

3.3 data collection

In this study, mainly secondary data is collected. Secondary data has been obtained from the following sources:

- Published Annual Reports of the companies for the financial years 2014–15 to 2018–19.
- Directory of Mumbai Stock Exchange
- Websites of the selected companies
- Other related websites

3.4 objectives of the study

There are three important activities which are the significant parts of Cash Flow Statements. The

analysis of all these activities is undertaken with the following objectives:

1. To study the trend of various activities such as Operating, Investing and Financing of selected companies of Personal care industry.
2. To analyze the variation amongst Operating Activities for the period of study of selected companies.
3. To undertake comparative study on Investing Activities for the period of study of selected companies.
4. To undertake comparative study on financing Activities for the period of study of selected companies.
5. To provide suggestions for improvement in Cash Management.

3.5 Hypotheses of the Study

Considering the objectives of the study the following hypothesis were formed under investigation:

1. There is no significant difference between the means of Operating activities of the selected companies.
2. There is no significant difference between the means of Investing activities of the selected companies.
3. There is no significant difference between the means of Financing activities of the selected companies.

3.6 statistical tools and techniques

The statistical analysis technique is selected to analyze the Cash Flow Statements of the companies in the study. For this, following techniques are being used:

- 1) Mean
- 2) Standard Deviation
- 3) Co – efficient of Variation
- 4) T-Test

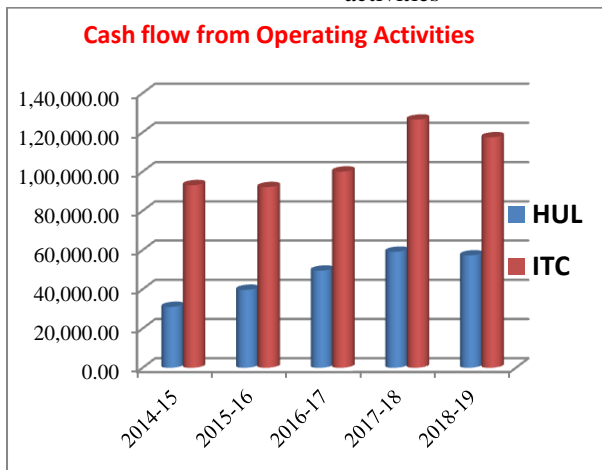
4. Data analysis and Interpretation

Table 1: STATISTICAL ANALYSIS
MEAN, STANDARD DEVIATION AND CO-VARIANCE

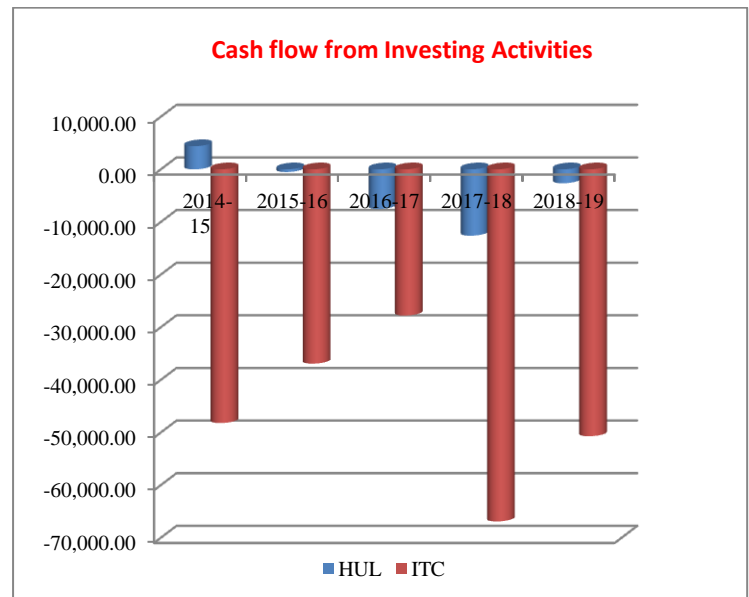
Year	Operating Activities		Investing Activities		Financing Activities	
	HUL Ltd.	ITC Ltd.	HUL Ltd.	ITC Ltd.	HUL Ltd.	ITC Ltd.
2014-15	31,037.60	93,088.70	4,398.10	-48,200.30	-34,422.10	-45,736.10
2015-16	39,740.00	92,119.20	-510	-36,918.00	-40,080.00	-54,842.00
2016-17	49,530.00	1,00,020.20	-7,520.00	-27,766.40	-42,640.00	-71,413.10
2017-18	59,130.00	1,26,508.50	-12,610.00	-66,904.70	-46,510.00	-60,206.20
2018-19	57,280.00	1,17,490.50	-2,640.00	-50,710.00	-54,620.00	-66,113.20
Total	2,36,717.60	5,29,227.10	-18,881.90	-2,30,499.40	-2,18,272.10	-2,98,310.60
Average	47343.52	105845.42	-3776.38	-46099.88	-43654.42	-59662.12
Rank	2	1	1	2	1	2
S.D.	11896.76	15391.94	6535.10	14823.37	7540.55	9964.51
Rank	1	2	1	2	1	2
Co-variance	25.13	14.54	-173.05	-32.15	-17.27	-16.70
Rank	2	1	1	2	1	2

(Source: calculated from available companies' data)

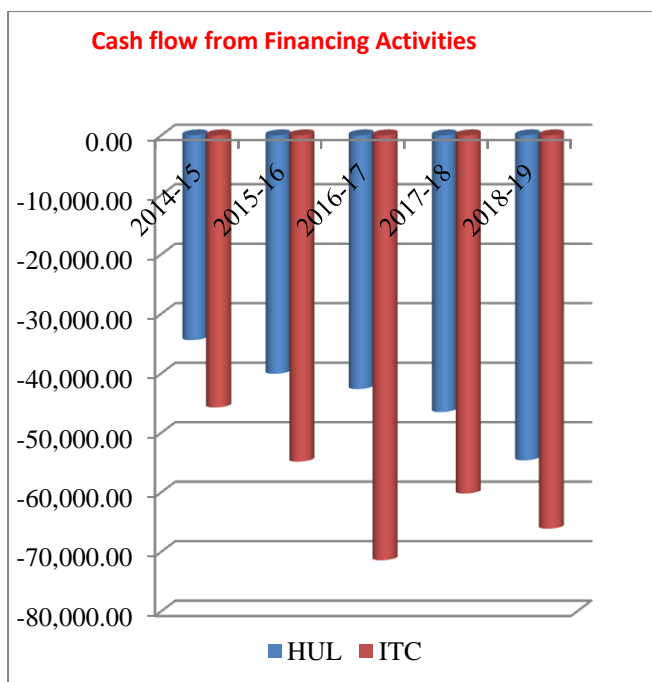
Graph 1: Cash flow from Operating activities



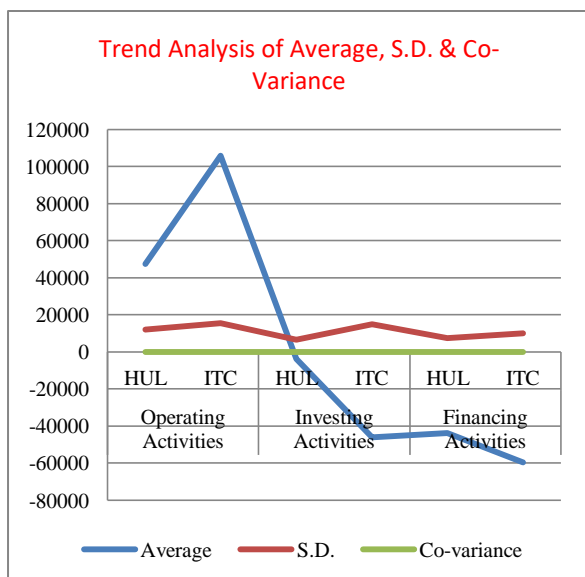
Graph 2: Cash flow from Investing activities



Graph 3: Cash flow from Financing activities



Graph 4: Trend Analysis of Average, S.D. & Co-Variance



Findings

(1) From the table, it can be seen that the average of cash flow from operating activities of ITC Ltd. is higher than that of HUL Ltd. Theoretically, higher the average, higher will be the rank and vice versa. So, ITC Ltd. is given 1st rank and HUL Ltd. is given 2nd rank. But, the situation is totally different in Investing and Financing activities. Accordingly, HUL Ltd. is given 1st rank and ITC Ltd. is given 2nd rank.

- (2) In case of Standard Deviation, lower the value, higher will be the rank and vice versa. Considering this aspect, it is observed that the S.D. for all the three activities of HUL Ltd. is lower than the ITC Ltd. So, for the three activities, HUL Ltd. obtained 1st rank and ITC Ltd. obtained 2nd rank.
- (3) In case of Co-variance also, lower the value, higher will be the rank and vice versa. So, ITC Ltd. is given 1st rank and HUL Ltd. is given 2nd rank in Operating activities. But, the situation is totally different in Investing and Financing activities. Accordingly, HUL Ltd. is given 1st rank and ITC Ltd. is given 2nd rank.

Table 2: OVERALL CONCLUSION

Level of Performance	Operating Activities	Investing Activities	Financing Activities
Best	ITC Ltd.	HUL Ltd.	HUL Ltd.
Poor	HUL Ltd.	ITC Ltd.	ITC Ltd.

PAIRED T-TEST BETWEEN TWO MEANS

Table 4: t-Test: Paired Two Sample for Means for operating Activities

	<i>HUL Ltd.</i>	<i>ITC Ltd.</i>
Mean	47343.52	105845.42
Variance	141532996	236911743
Observations	5	5
Hypothesized Mean Difference	58501.9	
Df	4	
t Stat	-37.376928	
t Critical two-tail	2.77644511	

Table 5: t-Test: Paired Two Sample for Means for Investing Activities

	<i>HUL Ltd.</i>	<i>ITC Ltd.</i>
Mean	-3776.38	-46099.88
Variance	42707564	219732228.8
Observations	5	5
Hypothesized Mean Difference	43654.4	
Df	4	
t Stat	-0.20987	
t Critical two-tail	2.776445	

Table 6: t-Test: Paired Two Sample for Means for Financing Activities

	<i>HUL Ltd.</i>	<i>ITC Ltd.</i>
Mean	-43654.42	-59662.12
Variance	56859885.18	99291394.26
Observations	5	5
Hypothesized Mean Difference	16077.7	
df	4	
t Stat	-0.02148707	
t Critical two-tail	2.776445105	

Table 7: Hypothesis Testing

Activities	tc	Tt	Hypothesis Accepted Or Rejected
Operating Activities	-37.38	2.78	Accepted
Investing Activities	-0.21	2.78	Accepted
Financing Activities	-0.02	2.78	Accepted

Hypothesis Testing

1. From the T-table, it is observed that the calculated value of t for operating activities (-37.38) is less than the table value (2.78), the hypothesis is accepted. It means that there is no significant difference between the means of operating activities of selected companies.
2. For Investing activities also, calculated value of t for operating activities (-0.21) is less than the table value (2.78), the hypothesis is accepted. It means that there is no significant difference between the means of investing activities of selected companies.
3. In the case of Financing activities also, calculated value of t for operating activities (-0.02) is less than the table value (2.78), the hypothesis is accepted. It means that there is no significant difference between the means of financing activities of selected companies.

6. Limitations of the Study

This entire study is based on the published financial statements of the company and other information received from the company officials. So, all analysis is based on this data. So it can be reliable to that extent.

1. As the information is gathered from limited sources, it is not possible to use different tools and techniques of statistical analysis.
2. The study is based on secondary data and it has its own limitation.
3. The entire study is limited to two companies only. It can be carried out by including Industry.

7. Conclusion and Recommendation

A materially misstated cash flow statement, whether it is in terms of incorrect classification in the categories or numerical accuracy, can be misleading to the user and can lead to wrong decisions taken by the users of the statement. The survey has revealed that although sample banks prepare cash flow statement according to Accounting Standard-3 (AS-3), there is also a degree of non-compliance. It is, however, found that there are not many differences between companies in their reporting of cash flow information. This is expected because the preparation of cash flow statement does not allow for many choices, differences of interpretation or different accounting treatments. To make cash flow statement more informative and useful for users, the companies should disclose additional voluntary information such as cash flow per share in their cash flow statements. Due to the limited scope of the present study, a large number of research issues have not been attempted but are identified in the course of the study. Disclosure practices of additional items other than operating, investing and financing activities, disclosure practices differences between listed and unlisted companies, disclosure practices differences between financial and other institutions are some such potential issues for future research.

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