International Digital Organization for Scientific Research ISSN: 2579-0765
IDOSR JOURNAL OF CURRENT ISSUES IN SOCIAL SCIENCES 2(1): 47-54, 2016.

Effect of Cash Flow Statement on Performance of Selected Food Beverage Companies In Nigeria.

Ubesie Madubuko Cyril, Chitor Ifunanya Lawretta and Ejembi Emmanuel Adakole

Department of Accountancy, Faculty of Management Sciences, Enugu State University of Science and Technology, Enugu.

ABSTRACT

The study examines the relationship between cash flow and performance in the Food and Beverages sector of Nigeria. The study involved a survey of Six (6) Food and Beverages companies quoted in the Nigerian Stock Exchange. Data were obtained from the annual report and accounts of the selected companies under study. The relevant data were subjected to statistical analysis using the multiple regression technique. The results of the study revealed that operating and financing cash flows have significant positive relationship with corporate performance in the Food and Beverage Sector of Nigeria. It was also empirically verified that investing cash flow and corporate performance have significant negative relationship. The researchers recommended that regulatory authorities such as IFRS, FRCN, CBN, NSE, SEC, NDIC, etc. should encourage external auditors of these quoted Food and Beverages Companies to use cash flow ratios in evaluating the performance of a company before forming an independent opinion on the financial statement. This will give detailed information on the company to enable investors make rational investment decisions.

Keywords: Cash flow, operating, Investing, Financing and Performance.

INTRODUCTION

Cash flow of a company is a crucial factor that enhances its operations. Attesting to the relevance of cash flows in the company's operations and performance, [1],posits that corporate organizations need to develop and apply a suitable cash flow mix in order to maximize shareholders values. [2] sees cash flows of an organization as those pool of funds that the company commits to its non-current assets, inventories, account receivables and marketable securities" that lead to corporate profit. The ability of the company to effectively choose adequate source of funds to financing its operations will differentiate strong cash flow governance and poorly managed cash flows [1]. For the cash flows to be well structured and effectively utilized, a business firm must be able to devise various ways for selecting the best components of its cashflows which would be used in the company's operation to raise its productivity or achieve performance. This process should be based on the criteria well drawn up by the finance manager after making a careful financial planning and control for the company [2].

Cash flow is an index of the money that is actually received or paid out by a firm for certain time period [3]. This index is not inclusive of non-cash accounting charges such as depreciation. Cash represents the firm's vascular system, if it dwindles, the business will not survive. The fact that a firm is profitable does not mean that it is also solvent. The profit is not cash. The solvency, flexibility and the financial performance of the firm are set on the firm's ability to generate positive cash flows from the operating, investing and financing activities [3]. Cash flows represent all inputs and outputs liquidities and cash equivalents. Liquidities represent cash on hand and demand deposits. Cash equivalents are short-term investments with a liquidity degree that can be easily converted into cash with an insignificant risk of value change. According to [4], cash flows are more direct measure of liquidity and a contributing factor in corporate performance. Cash flow information assists its financial statement users in obtaining the relevant information concerning the use of resources of virtually the entire financial resources over a given time period [5].

[6], Maintained that suppliers are interested in the firm's liquidity because their rights are generally on a short term which the company's ability to pay is best reflected by the liquidity indicators. According to [7], investors in bonds, who ordinarily lend to the firm on medium or long term for remuneration, are rather interested in the company's ability to generate cash flow for medium and long-term coverage of debt service.

[8];and [9]; argued that cash flows and corporate performance have a significant negative relationship, Contrary to the previous studies.

[10] , [11] & [12] held that cash flows and corporate performance have a significant positive relationship.
Cash flows have to do with operating and investing activities. Operating activities have to do with expenses that do not guarantee a continuous inflow of cash. The investing activities on the other hand guarantee a continuous inflow of revenue. The issue is how best have these investing activities been evaluated with cash flow analysis or ratios in determining corporate performance instead of the traditional ratio analysis. Several studies had revealed that the traditional ratios are history based such as statement of financial position and the income statement which by their nature are records of sunk cost and not relevant for future decision making.

The broad objective of the study is to examine the relationship between cash flows and corporate performance in the Food and Beverages sector of Nigeria. While the specific objectives are as follows:

1. To determine the relationship between operating cash flows and corporate performance in the

Food and Beverages sector of Nigeria.

2. To ascertain the relationship between investing activities and corporate performance in the Food and Beverages sector of Nigeria.
3. To evaluate the relationship between financing activities and corporate performance.

Review of Empirical Studies

[13], studied the association between various earnings and cash flow measures of firm performance and stock returns in Iran. They used the simple and multiple regressions to analyse the data for a period of nine consecutive years from 2003 to 2011. The study revealed that company's performance and cash flow have a significant negative relationship. Furthermore, that earning based measures are more related to stock returns and depict the company performance

better than cash flow measures in some companies with higher accruals.

[14], carried out a study on the effect of Banking Relationship on firm performance in Vietnam. They used the multiple regression to analyse the data, using a sample of 465 companies listed in Vietnam for the period 2007 to 2010. The study revealed that firm performance decreased as the number of bank relationships increased. Additionally, the study indicated that cash flow had negative relationship with firms, return on equity, while assets had negative association with return on assets.

[15], carried out an investigation of comprehensive income and firm performance of the Electric appliances industry of the Tokyo Stock Exchange. The study used data for the fiscal year of 2009 to 2011 and employed the pooled regressions (Panel data regression analyses). The study revealed that cash flow and firm performance have a significant negative relationship.

[16], examined the relationship between free cash flow and financial performance evidence from the listed Real Estate Companies in China. The study employed regression analysis on the data from 2006 – 2011 of all listed real estate companies in China. The study revealed that the free cash flow of a company is negatively linear – correlated to its financial performance. Too much free cash flow will lead the financial performance to decline. [17], carried out an empirical analysis of the relationship between cash flow and dividend changes in Nigeria. The researcher used the ordinary least squares (OLS) method to analyse the data on a sample of 63 quoted firms in Nigeria over a wider testing period from 1984 to 1997. The empirical result revealed that the relationship between cash flow and firm performance was positively significant.

Additionally, the relationship between cash flows and dividend changes depend substantially on the level of growth, capital structure choice, and size of each firm and economic policy changes.

[18], examined the free cash flow hypothesis for sales growth and firm performance. The study used white and Durbin- Watson tests on the data that covers the years 1988 to 1995. The result revealed that the firm performance and cash flow have a significant positive relationship but different governance conditions affect sales growth and performance in different ways.

[19] examined the association between accounting earnings and stock returns in firm listed in Tehran stock exchange. He analysed the data via pearson correlation and simple regression method. The study revealed that there is a meaningful relationship among net profit, operating earnings with stock returns.

[20], studied the relationship between accounting ratios, operating cash flows, investments, financing and stock returns in Tehran Stock Exchange. The study used the Pearson correlation and simple linear regression to analyse the data of a sample of 650 listed companies for the period 1998 to 2004. The result showed that there is a meaningful relationship among the growing of operating earnings, growing of net profit, operating cash flows, investing cash flows with stock returns but there is no meaningful relationship among the growing of trade sales, financing cash flows and stock return.

[21], studied the relationship between free cash flows and operating earning with stock returns and growth of net market values of operating assets in Tehran Stock Exchange. The study adopted Pearson correlation and simple linear regression method. The study revealed that there is a positive meaningful relationship between operating earning with return on equity, return on assets, and growing of net market values in operating assets.

[22], carried a study on the association of various earning and cash flow measures of firm performance and stock returns. The study used simple and multiple regressions to analyse the data. The study revealed that cash flow and firm performance have a significant negative relationship.

METHODOLOGY

The data used for the study were collected from the Nigerian stock exchange for the period 2007 -2011 (i.e. Annual report and Accounts of the companies under study). Six companies in the Food and Beverage sector of Nigeria were selected based on availability of annual report and accounts in the Nigerian stock exchange (NSE) The firms are: Nestle Nig. Plc, Dangote Flour Mills Plc, Cadbury Nig.

Plc, 7up Bottling Co. Plc., Flour Mills Nig. Plc. and UTC Nig. Plc.

Variables of the study

Corporate performance is the explained variable. It is measured by return on total assets (ROTA), which is defined as profits after tax divided by capital employed or total assets. Three independent variables were employed namely:-

1. operating cash flow (OPCF): This measures the Net Cash Flows from the operating activities
2. investing cash Flow (INVCF): This is defined as the Net Cash flow from investing activities
3. Financing Cash Flow (FCF): This measures the net cash flows from financing activities

Model Specification

ROTA = F (OPCF, INVCF, FINCF)

ROTA = b0 + b1 + OPCF + b2 INVCF + FINCF .... (1)

Where:
B = Parameter to be estimated
U = Error term
ROTA = Return on total assets, an index for corporate performance
OPCF = Operating cash flows
INVCF = Investing cash flows
FINCF = Financing cash flows

RESULTS AND DISCUSSIONS

Tables1. Average cash flows for the past five years and return on total assets (ROTA) in six selected food and beverages companies for the period 2007 -2011

Year	**Dependent Variables (Corporate Performanced)**	**Independent OPCF**	**Variables INVCF**	**FINCF**
	ROTA(%)	₦ Billion	₦ Billion	₦ Billion
2007	2	6.995	(9.928)	0.220
2008	5	7.184	(4.793)	2.282
2009	9	15.348	(4.542)	2.819
2010	12	20.648	(2.593)	6.422
2011	15	21.858	(2.344)	8.474

Source: Annual Report and Accounts for the various companies under study for the year 2007 – 2011, collected from NSE.

Table 2. Results of regression analysis on the variable (ROTA, OPCF, INVCF, FINCF) i.e. Analysis o f the relationship between cash flow and corporate performance. Dependent variable: ROTA (corporate performance)

COEFFICIENTS

Model		Unstandardized coefficient		Standard coefficient		
		B	Std Error	Beta	T	sig
	Constant	19.986	797		31.845	.000
	OPCF	75.783	5.152	3.589	25.906	.076
	INVCF	-348	.255	-654	-343	.859
	FINCF	.563	.324	2.472	4.592	.037

F-value = 89.702
F-probability = 0.000
R^2 = .974
Adj.R^2 = 97.4%
DW = 1.752

Source: SPSS 19 for Windows

The coefficients of determination R^2 show that the explanatory variables explained approximately 97% of the relationship between cash flows and corporate performance.

Operating cash flows (OPCF) has statistically significant positive relationship with corporate performance. A unit increase in operating cash flows leads to 75.79 units increase in profits in the companies of the food and beverages sectors of Nigeria. This results confirms to prior empirical evidence of [3]. Investing cash flows (INCF): investing cash flows has a significant negative relationship with corporate performance in the food and beverages industries of Nigeria. This result does not conform to a prior empirical evidence that investing cash flows has a positive relationship with corporate performance [3]. Unit increase if investing cash flows will lead to - . 348 unit decrease in profits of the firms (corporate performance) in the total food and beverage sector of Nigeria. Financing cash flows (FINCF): Financing cash flows has a positive and significant relationship with corporate performance and in tandem with [4]. A unit increase in financing cash flows will lead to .563 increase in profits of the firms in the food and beverages sector of Nigeria.

The study recommends as follows

1.That Regulatory Authorities such as IFRS,CBN,FRCN,NDIC,SEC,NSE and others. Should encourage companies to set-up a result-oriented cash flow system that will encourage the investing public to avail themselves of financial risk capable of jeopardizing their investment .

2.That External auditors should be encouraged to use cash flow ratios in evaluating the performance of a company before forming an independent opinion on the financial statement. This will give detailed information on the financial performance of the company to enable investors make effective investment decisions.

3. That Government should introduce a compulsory cash flow policy such as investment policy, dividend policy and others in order to restore the confidence of Nigeria investors and creditors.

REFERENCES

1. Efobi, R. U (2008). The Impact of Capital structure on corporate profitability in Nigeria. "An unpublished M.Sc Dissertation submitted in impartial fulfillment for the Award of an M.Sc Degree in Accounting, Department of Accountancy, CBS, CU, OTA, Ogun State.
2. Uremadu, S.O (2004). Financial Management: concepts, analysis and applications. Enugu, precision publisher limited.
3. Turcas, M (2011). The cashflow – Instrument for the company's analysis and forecast. Bucharest, Academy of economic studies,.
4. Adelegan, O.J. (2003). An Empirical Analysis of the relationship between cash flow and Divided charges in Nigeria. Journal of Research in Development and Management (15); 35-49.
5. Ross, S. WesterField, R. and Jordan, B. (2007): Fundamental of Corporate Finance. New York: Pearson – Patience.
6. Fabozzi, F. J. and Markowitz, H. M. (2006): The Theory and Practice of Investment. London: Wiley
7. Bragg, S. M. (2002): Business ratios and formulas: a Comprehensive guide. New York, Irwin
8. Thanh, V.H and Nguyen, M.H. (2013). The effect of Banking relationship on firm performance in Vietnam. International Journal of Economics and Finance. (5); 5, 148- 158
9. Zhou, H, Yang, S. and Zhang, M (2012). Relationship between free cashflow and financial performance. Evidence from the Listed Real Estate Companies in China. IPC.SIT. (36), 331-335.
10. Shahmoradi M. (2002). The association between accounting earnings and stock returns in firms listed in Taiwan stock exchange. Behesti, University of Shahid.
11. Khoshdel, N.A.R. (2006). The study of relationship between free cashflows and operating earnings with stock returns and growth of net market value of operating assets in TSE. Mashhad, Islamic Azad University of Mashhod, Iran.
12. Chikashi, T O. (2013). An Investigation of comprehensive income and firm performance: The case of the electric appliances Industry of the Tokyo Stock Exchange. Journal of Accounting and finance research. (2); 2; 29-35.
13. Western Ali M, Alireza, A and Jalal, .A. (2013). The association between various Earnings and cashflow measures of firm performance and stock returns: some Iranian evidence. International Journal of accounting and financial reporting.(3); 1; 24 – 39.
14. Brush, T.H, Bromiley, P and Hendrickx, M (2000). The free cash flow hypothesis for sales growth and firm performance. *Strategic management Journal.* (21); 455 – 472
15. Ashtiani, A.R. (2005). The study of relationship between accounting ratios and operating cash flows, investments financing and stock returns in TSE. Mashhad, Islamic Azad University of Mashhad, Iran.

16. Watson, J. (2005) The Association of various earnings and cash flow measures of firm performance and stock returns. School of accounting, University of Technology, Sydney.
17. Akintoye, I.R (2008). Effect of capital structure on firms' performance. The Nigerian experience". Albrecht, W. S. (2003): Fraud Examination Manson, Ohio, Thomson and South-
18. Elliot B. and Elliont J (2002). Financial Accounting and Reporting. 12th edition, London, Prentice Hall/financial Times.
19. Raheman, A., Zulfiqar .B. and Mustapha N. (2007). Working capital management and profitability: case of Pakistan firms IJBRP Vol. 3 No1 pp. 279-300
20. Bodie, Z Kane, A. and Marcus, J. (2004): Essential of Investments. 5th Edition. New York, Irwin
21. Onwioduokit, A. and Nwachukwu, J. (2008): "Financial Ratios and the Probabilistic Prediction of Bankruptcy." Journal of Accounting Research 18(Spring): 109-131
22. Farchadfar, S. (1999). The association of accrual earnings and operating cashflows with stock returns. Mashhad, Azad Islamic University of Mashhad, Iran.