Role of Cash Flow in Determining the Success of a Firm: Review Paper

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1 INTRODUCTION

Evaluations of capital structure are one of the main issues for all firms who utilize separate financial resources to conduct successful initiatives to create revenue and maximize wealth. In this environment, the economic prosperity of any company that participates in commodity operations depends on economically efficient inventory control both within and without firm. Because a company is just profitable, it is not financially solid (Permata 2019). The financial results of an enterprise are governed by strategies and cash flows and is assessed using asset as well as equity, and the aim is to enable the company to generate cash through operational funding and investment activities. In addition, a company's failure to properly manage operational cash flows might reduce its effectiveness. Each company should thus be able to control its cash flows in order to achieve success.

The statement of cash flow is the accounting document that identifies the cash inflows as well as outflows of a company within a certain timeframe. It is just as critical as the cash flow assessment financial statements. It can be hard to get an exact picture of an organization's growth without a cash flow statement. The statement of revenue will show however much interests people paid on a mortgage and how much you owe the capital structure, but only the statement of financial position tells people how much cash was taken up to support the loan (Margasova 2019). The report of earnings will document sales growth, but the statement about the cash flow will warn if such sales do not provide sufficient cash to pay the costs. Even if a firm makes a profit by earning more income than expenditures, its cash flow is properly managed to succeed. The cash flows of a corporation are connected to its operations or activities and investments. The cash produced by a firm is linked to its main businesses and offers the finest cash flow management possibilities (Mazouz 2012).

Areas where operating cash flow is improved include trade receivables, current liabilities, and stocks. If a firm were arbitrarily to give credit without establishing its clients' creditworthiness and without following up on missed payments, this would impact the project and less cash inflow and unpaid debts. That’s why a leverage ratio and a follow-up on late payments are vital. On the other side, it is a better way to pay vendors later than sooner when it concerns to the cash receipts. In addition, it is vital not to keep greater cash in stock, but to have enough inventory on hand to satisfy the company's urgent demands (Kent

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2015). This review paper explores the role of the cash flow in determining the performance of a firm. Furthermore, the paper will cover various aspects of the cash flow including the fundamental of cash flow, analysis of cash flow as well as how the firms can improve the cash flow. Moreover, the paper will also provide detailed description of the significance of cash flow in the business as well as its role in determining the success of a firm.

2 CONCEPT OF CASH FLOW AND STATEMENET OF CASH FLOW

Cash flow, described by the word, is the flow of money in and out of the business. The main input for the business is the selling of commodities or services to the customers, but be careful not to forget that the input happens whenever people sell cash or get receipts. The cash is what matters! Other types of cash flows include money borrowed, capital spending income and interest income from investments (Anamaria 2015). Outflows are usually due to payment expenditures for the firm. For instance payment of staff wages, stock purchases of raw materials, purchases of fixed assets, operational expenditures, repayment of debts and taxes, include outflows of cash. The activities associated with the cash inflows and outflows is illustrated in the Figure 1.

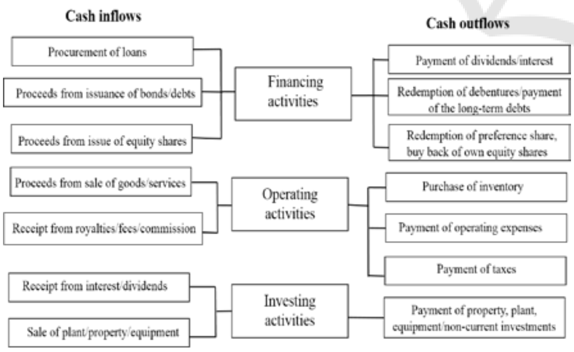

Figure 1: Illustrates the activities associated with the cash inflows and outflows.

A statement of cash flow is a financial declaration that offers cumulative statistics for all cash inflows from current activities as well as foreign factors of investment. It also covers all cash flows payable over a certain time for company market and the impact. The financial statements of a firm provide an overview of all activities in the business for investors and analysts, which contribute to their success in every transaction. The cash flow report is considered to become the most obvious of all financial information, as it tracks the cash produced by the company in diverse ways such as expenditure and funding (Fawzi 2015). Net cash flow is called the sum of these components. The cash sources and the cash utilization are separated into three groups, as shown in the Figure 2.

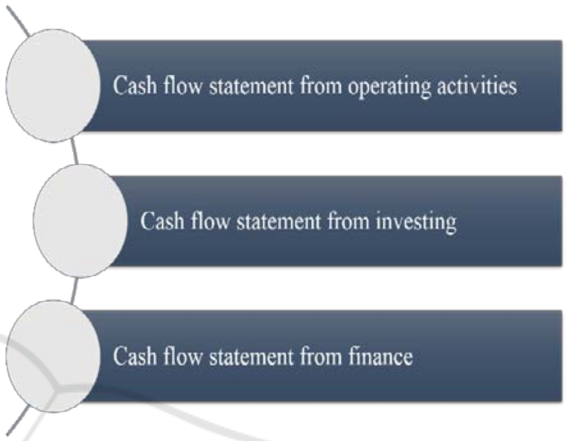

Figure 2: Schematic Illustration of the Categories of the Cash Flow Statement under Different Financial Activities.

2.1 Analysis of Cash Flow

The more quickly firms understand how to handle their cash flow, the more likely people are to survive. In addition, firm can maintain their reputation and prepare firm for long-term better performance (Eisdorfer 2007). The first step towards controlling the cash flow of the firm is to evaluate the components of their flows from both side. A detailed study of these elements will uncover issue areas resulting in the firm to cash flow shortages. Reducing or even shutting these loopholes is essential to the management of cash flow (Li 2020). The fundamental components for analyzing the cash flow are discussed in the Table 1.

Table 1: Detailed Description of the Components for Analyzing the Cash Flow.

Component	Description
Inventory	Inventory indicates the additional goods or supply your company maintains a position to satisfy consumer needs. The usage of capital that could be utilized for additional cash outflows can harm

	your cash flow via inventory levels. Instead of what they can realistically sell, too many businessmen acquire stock based on hope and fantasies. Keep as small as feasible their inventory.
Accounts receivable	Accounts receivable indicate sales not yet retrieved in monetary form. When firm send anything for a customer and give for their commitment to return at a later period, firm establish a deferred revenue balance sheet. The longer it takes their consumers to settle their accounts, the less impact their cash flow will have.
Credit policy	A credit policy is a plan firm employ to extend the loan to a consumer. The right credit strategy is essential for a good cash flow, either too tight or too liberal.
Credit terms.	Credit conditions are the time constraints firm establish to pay for their clients. The timing of their financial inflows is affected by credit conditions. A straightforward manner in which consumers may enhance the cash flow is to make payments faster.

2.2 Way to Improve Cash Flow in a Firm

Even prosperous firms may have issues with cash flow when they owe their obligations before they raise sufficient cash from sales to settle their accounts. Consider establishing new rules to ensure firm control their cash flow, such as providing incentives to early paying clients, setting up a purchase partnership with other companies and using electronic payments for settlements (Wu 2019). Firm may also bargain better terms with their providers, enhance their billing operations and test higher prices to increase your cash flow. The list of the possible ways for improving the cash flow is discussed in the Table 2.

Table 2: List of the Possible Ways for Improving the Cash Flow and Their Description.

Possible way	Description
Utilize electronic payments	Firm may wait that long of the day when firm pay online for a bill that would allow payment. This time buying enhances their cash flow. Firm may also use a credit card, because some people provide a three-week time limit, which can help boost the cash flow. Firm may even receive some cash back. But don't stack up the debt too high.
Improve inventory	Consider an inventory check. Make a note of the goods firm purchase that do not fit with the other goods. A greater cash is attached and their financial flow might harm firm. Instead of purchasing more, even if firm have to sell it at a discounted, get rid of it. It is difficult to go away from the items that firm love so that it will be able to observe an increasing demand one day, but that is rarely never the case. Be amiable, not emotional.
Increase pricing	Price growth is a topic which frightens many businesspeople. They are concerned that sales will be diminished. But it's okay to try prices to find the right number.
Evaluate buyer credit checks	If firm don't want a consumer to pay in cash, make sure firm verify their credit, especially before signing them up. If the customer has low credit, firm might infer that firm are not paying on time. The missed payments damage the firm cash flow just as much as firm would desire to sell. If firm choose a sales solution despite any dubious loan, make sure that the sales price is high.
Go for lease	Since leasing materials, machinery and property are often costlier than purchasing, it may appear paradoxical for anybody who pays only consideration to the lowest possible level or who pays off the income after spending. However, if your business doesn't have a cash

	stream, firm will want to have a cash stream for everyday business. Leasing helps enhance the cash flow and firm pay in tiny increments. An additional advantage is that rental payments constitute a commercial cost, and the taxes can therefore be deducted.

3 IMPORTANCE OF STATEMENT OF CASH FLOW

The statement of cash flow determines the flow of cash in terms of inflow as well as outflow that considered for a particular period of time. The information associated with the cash available or cash position of a firm is not just important for the finance managers in order to plan long as well as short term goals but also important for evaluating the financial investment needed for the firm. (Fazzari 2008). The fundamental significance of statement of cash flow is discussed in the Table 3.

Table 3: Detailed Description of the Significance of Statement of Cash Flow.

Importance	Description
Make effective financial decisions	Firm will recognize accurately amount of cash firm accounts at particular time if organization have precise statement of the cash flow. The information becomes more critical because all the plans of the firm depending upon the precise data of the cash flow. If firm don't finally perform the flow of cash, the risky decisions can put firm in danger. Sometimes firms are performing excellent in their business but the statement of cash flow provide the accurate information regarding the how much cash received by the firm in a specific time duration. This might be because of statement that firm doesn't send out bills to their clients. Whatsoever, firm will certainly not decide any capital investments at particular duration if firm have an updated statement of cash flow.
Secure business relationships	If company is having cash flow difficulties, firm could not be wealthy enough to pay its vendors since firm don't even have adequate money. This may affect their economic relationship with customers as well as its common impression. Create contractual conditions to ensure that the customers may be paid by the company. Planning in the future is essential so that firm don't have many debts or invoices to deal with simultaneously.
Expand the business	The company's growing and developing is exciting. It greatly expands into emerging businesses, recruiting new workers and boosting revenues. If the business expands at the right time or in the incorrect way, the company would have more difficulty in the long term. A big quantity of money is required by growth. The goods are bought, the facilities are leased, personnel are recruited and machines are acquired before the money begins. If it has no funds to meet the expansion, it will have problems. You can determine if the business is effective in managing its cash flow when the timing is suitable.
Creating surplus cash	The urge to generate a gain motivates every company. Revenue subsidies for cash generation, but alternative ways are also accessible. These strategies may be found and implemented by focusing on the statement of cash flow.

For a financial advisor, cash flow figures are quite important. The data in a cash flow statement can aid managers in short-term financial management and financial reporting. The predicted cash flow statements reveal if there is a cash surplus or shortfall ahead of time. This facilitates the placement of excess funds in bank accounts or short-term investments in current assets. If there is a cash shortfall, a plan might be made to raise a bank loan or sell current liabilities. Cash-flow statements are extremely helpful in making debt liquidation, plant and capital expenditure replacements, and other actions involving cash outflow from the firm since they give details about the company's cash-generating capabilities. When the cash flow statement for a given year is compared to the budgeting for that year, it shows how closely the actual sources and uses of cash corresponded to the budget. This activity aids in the future refinement of the planning process. Compared to other companies in the industry, a temporary and inter-corporate comparison with the cash flow statement provides a summary in a firm's liquidity situation. It may function as a remedy if it is noted that the management of cash flow is not efficient. In brief financial analyses the cash-flow statement is far greater helpful than in cash flow statement, since in the near term it is more valuable cash than capital investment for the implementation of plans.

4 SIGNIFICANCE OF CASH FLOW IN DETERMINING THE PERFORMANCE OF A FIRM

Cash inflow is the company' lifeline and originates from such streams as client payments, borrowings, financial infusions from an investor, or economic rewards interest. Cash is vital, too, because eventually it becomes the compensation for the business's activities, costs like equipment or raw materials, staff, rent and other operational costs. Positive cash flow is of course preferable. Cash flows mean that your company works effectively (Da 2009). High positive cash flow is much better and will enable firm to invest and expand the company further. For a new firm, it is very important to have information into the cash flow of your organization. When a company initially opens its gates, it generally has considerable costs to get the business up and running, but does not have enough sales and collections to pay back the money. If such is the case, obtaining third-party funding to create work capital that will protect and sustain the company in the first phases might be essential for a new firm. Many young firms slip into a 'negative cash flow' with no supportive funding when their expenditures exceed the cash they receive. This is among the most frequent reasons for an early failure of a new firm.

Cash flows are important since they are highly significant information when it comes to the implementation of economic choices in a business. The importance of cash flow cannot be overstated. For example, a company's investors typically need information about a company's future financial predictions (Galvao 2018). The reason is that the value of their present value investment is an indication of how much they will be worth in the future. Also, the capacity of a company to amass cash flows typically reflects the worth of the company. In a cash flow, the info is very much important to stock prices of the companies listed on the stock market. As a result, a future estimate of a firm's cash flows has enabled new investors and existing investors to projected stock values with confidence. Regarding the evaluation of investment choice, an investment survey indicated that they had considerably enhanced their appreciation of the significance of cash flow information.

Furthermore, it was suggested by a Financial Advisory Board that the publishing of a firm's financial data may help company's financial users examine a company's future cash flows. With regard to these concerns, cash flows have now become evidently extremely important. In the interest of forecasting the future cash flows of a company, most of the studies have tried to examine a company's predictive capacity in respect of earnings based on accrual income and cash flows. In comparison to the actual cash flows, income is a stronger predictor of the cash flow resulting from a company(Chay 2009). However, previous investigations in the same field showed equivocal findings. A lot of additional findings from study have apparently concluded that they exceed the revenues generated by cash flows, when it comes to the predictive capacity of a firm's revenues. Rather, certain research show that cash flows are a superior means of anticipating future cash flows. However, there are conflicting results (Al-Nasser 2020).

On the other hand, the conclusions of earlier investigations appear to have been refuted by a study conducted by academics. The author stated, alternatively, that a company's profitability and cash flows were not good instruments to anticipate the future cash flow of a company. A lot of studies also wanted to highlight a variety of factors, such as earnings elements involving information about accumulating accounting, as well as cash flow data above and beyond single variable testing (Afrifa 2018). In order to evaluate the relationship between future revenues and the accruing aspects of the companies' income, the authors used a small model time series. These authors concluded that each of the different components of accrual earnings accounts provided varied information about future cash flow forecasts.

5 DISCUSSION

Information on a company's cash flows is helpful in giving financial report consumers a basis for assessing the company's capacity to create cash as well as equivalent to cash, and the company's require to utilize these flow of cash. The monetary judgments given by managers involve a valuation of a company's capability to generate cash as well as equivalents to cash and the timeframe and certainty of production. The Standard deals by way of a cash flow report that classifies cash flows over the period of operation, investment and funding, in order to get information about the evolutionary process in cash and the equivalent of cash of the firm. Users of the budgetary accounts of a company are interested in how the company produces and utilizes cash. This is the case irrespective of the severity of the operations of the business and if cash, as may be the case with a financial business, may be seen as the product of the business.

Corporations require cash, but their main revenue-producing activities may vary, for basically the same reasons. They require funds to operate, pay their liabilities and repay to their investors. The Cash Flow Statement reports that facilitates organizations to assess changes in a firm's net assets, its economic position, as well as its opportunity to change cash flow levels and times to adapt it to shifting conditions and opportunities, when used in conjunction with other financial statements. In analyzing the company's capacity to create cash and cash equivalents, cash flow information is valuable and helps users to construct models that monitor and measure the present value of cash flows from different companies. It also improves the comparability of operating performance reporting by other companies, as it eliminates the impact of differing accounting procedures for the same transactions and occurrences.

6 CONCLUSION

Every business has the capability to generate a positive cash flow for its future financing and existence. Cash flow helps reduce the organization's dependency on external money, duty service and obligations, financial investment and an appropriate dividend policy for investors. Any economic decisions and the economic performance of the business may also be evaluated using the cash flow statement. The decisions based on cash flow expectations can be taken and more information on cash can be reviewed at any moment. When a company produces more cash inflows than outflows, it is the greatest way to assess the company's performance. The essence of a management business is the attraction and use of resources to obtain products for which customers pay more than their initial costs. Historical information on cash flow is typically used as a measure of the quantity, timing and safety of future cash flows. The extent to which prior evaluations of future cash flows were assessed and the link between profitability and net cash flow and the effect of pricing changes is also valuable. Since, the performance of any firm is greatly depends on the financial statement of the cash flow that is why it is very important to analyze the statement very carefully. In many cases, firms are facing cash flow issues while doing their business, sometime financial statement goes into the negative cash flow. Under this condition, firm may face financial issues in order to perform their daily-to-daily operations. In order to overcome such challenges, it is recommended that financial managers must analyze the cash inflow and outflow on daily basis so that the balance can be maintain. Although, multifarious investigations have been carried out earlier in this field but still there is a pragmatic scope of more investigations in future to explore the full potential of this field.

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