

"A man is
great by
deeds, not by
birth"

-Chanakya

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INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE



Case Study

IIMK/CS/115/FIN/2020/04

March 2020

Cash Flows Statement Analysis: Sunkun Limited

Sudershan Kuntluru¹ & Rachappa Shette²

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Please contact the corresponding authors if you would like to access the full case

¹Sudershan Kuntluru, Associate Professor, Finance, Accounting and Control, Indian Institute of Management, Kozhikode, IIMK Campus, Kunnamangalam, Kozhikode, Kerala 673570, India; Email: sudershan@iimk.ac.in, Phone Number (+91) 495 – 2809250

²Rachappa Shette, Associate Professor, Finance, Accounting and Control, Indian Institute of Management, Kozhikode, IIMK Campus, Kunnamangalam, Kozhikode, Kerala 673570, India; Email: rachappa.s@iimk.ac.in, Phone Number (+91) 495 – 2809422

Mr. Gunjan, head of marketing division for Goodlife Corporation, is pursuing Executive MBA program from IIM Kozhikode. His classes are scheduled on every Wednesday and Saturday. During the weekday class, typically, he plans limited client meetings so that he can attend the class. On one Wednesday, due to extended meetings on new product promotion campaign, he could not attend the session scheduled on the topic of 'Cash flow analyses'. He knows that it is one of the important topics of Financial Statement Analysis course and next class quiz, generally, planned based on the previous session topic.

He starts reading the 'Cash Flow Statement' topic from the class text book and Indian Accounting Standard (IndAS) 7: Statement of Cash Flows document. The following points are scribbled.

- a. Cash flow statement is presented under three headings like cash flows from operating activities (CFO), cash flows from investing activities (CFI) and cash flows from financing (CFF).
- b. The sum of CFO, CFI and CFF should be equal to the difference between beginning and ending cash and cash equivalents balances.
- c. As per the IND AS 7, dividend and interest received are classified as Cash from Investing activities and dividend and interest paid are classified as Cash from Financing activities.
- d. Unlike Balance Sheet and Profit and Loss statement, Cash flow statement is an analytical statement.

In desperation, he meets his one of his old colleagues at Goodlife Corporation, Mr Darshan, head of Finance and Accounting Division, to take his help in understanding what is Cash flow statement, how it is different from Profit and Loss statement, why it is important and what inferences can be drawn. Mr Darshan agrees to help and plans to meet in the evening after finishing his quarterly earnings call presentation to the analysts. Meanwhile, he gave last three years cash flow statements of SunKun Limited Company, one of their subsidiaries (see the *Appendix D*), to read and answer the following questions.

Questions for the meeting:

1. What is the major source of cash?
2. What is the major application of cash?
3. Is there enough net cash flows from operations for net cash flows used into investments?
4. Is there enough net cash flows from operations for net cash flows used into investment and interest payment obligation?
5. Is there enough net cash flows operations from operations for net cash flows used into investment, interest payment obligation and dividend payment?
6. Is capital expenditure greater than depreciation the sum of depreciation and amortization?
7. Is company investing into working capital or withdrawing cash from working capital?
8. What is the quality of profit?
9. What is the interest coverage ratio?
10. What is the trend of net cash flows from operations, net cash used into investing activities, net cash flows from financing activities and profit after tax?

Research Office
Indian Institute of Management Kozhikode
IIMK Campus P. O.,
Kozhikode, Kerala, India,
PIN - 673 570
Phone: +91-495-2809237/ 238
Email: research@iimk.ac.in
Web: <https://iimk.ac.in/faculty/publicationmenu.php>

