

# A COMPARATIVE STUDY OF DIRECT AND INDIRECT METHODS IN CASH FLOW STATEMENT PREPARATION: IMPLICATIONS FOR FINANCIAL REPORTING AT KOTAK MAHINDRA

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## ABSTRACT

The cash flow statement is an essential financial document that provides a comprehensive overview of a company's cash inflows and outflows over a specific period. This abstract highlights the importance of the cash flow statement in financial analysis and decision-making. Unlike other financial statements, the cash flow statement focuses exclusively on the liquidity and cash position of the company, offering insights into its operational efficiency, financial health, and ability to generate cash. It is divided into three sections: operating activities, investing activities, and financing activities. The operating activities section reflects the cash generated or used by the core business operations, while the investing activities section shows the cash spent or received from investments in assets. The financing activities section details cash flows related to borrowing, repaying debt, and equity transactions. By analyzing the cash flow statement, stakeholders can assess the company's ability to meet its short-term obligations, fund operations, and invest in growth opportunities. This abstract underscores the critical role of the cash flow statement in providing a clear and accurate picture of a company's financial stability and cash management practices.

## I. INTRODUCTION

### Statement of Cash Flows Overview

The statement of cash flows is part of the financial statements issued by a business, and describes the cash flows into and out of the organization. Its particular focus is on the types of activities that create and use cash, which are operations, investments, and financing. Though the statement of cash flows is generally considered less critical than the income statement and balance sheet, it can be used to discern trends in business performance that are not readily apparent in the rest of the financial statements. It is especially useful when there is a divergence between the amount of profits reported and the amount of net cash flow generated by operations.

There can be significant differences between the results shown in the income statement and the cash flows in this statement, for the following reasons:

- There are timing differences between the recordation of a transaction and when the related cash is actually expended or received.
- Management may be using aggressive revenue recognition to report revenue for which cash receipts are still some time in the future.
- The business may be asset intensive, and so requires large capital investments that do not appear in the income statement, except on a delayed basis as depreciation.

Many investors feel that the statement of cash flows is the most transparent of the financial statements (i.e., most difficult to fudge), and so they tend to rely upon it more than the other financial statements to discern the true performance of a business.

Cash flows in the statement are divided into the following three areas:

- *Operating activities*. These constitute the revenue-generating activities of a business. Examples of operating activities are cash received and disbursed for product sales, royalties,

commissions, fines, lawsuits, supplier and lender invoices, and payroll.

- *Investing activities.* These constitute payments made to acquire long-term assets, as well as cash received from their sale. Examples of investing activities are the purchase of fixed assets and the purchase or sale of securities issued by other entities.
- *Financing activities.* These constitute activities that will alter the equity or borrowings of a business. Examples are the sale of company shares, the repurchase of shares, and dividend payments.

There are two ways in which to present the statement of cash flows, which are the direct method and the indirect method. The direct method requires you to present cash flow information that is directly associated with the items triggering cash flows, such as:

- Cash collected from customers
- Interest and dividends received
- Cash paid to employees
- Cash paid to suppliers
- Interest paid
- Income taxes paid

Few organization collect information as required for the direct method, so they instead use the indirect method. Under the indirect approach, the statement begins with the net income or loss reported on the company's income statement, and then makes a series of adjustments to this figure to arrive at the amount of net cash provided by operating activities.

People and groups interested in cash flow statements include:

- Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses
- Potential lenders or creditors, who want a clear picture of a company's ability to repay
- Potential investors, who need to judge whether the company is financially sound

- Potential employees or contractors, who need to know whether the company will be able to afford compensation
- Shareholders of the business.

## Purpose

The cash flow statement was previously known as the flow of funds statement. The cash flow statement reflects a firm's liquidity.

The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time, and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These noncash transactions include depreciation or write-offs on bad debts or credit losses to name a few. The cash flow statement is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities. Noncash activities are usually reported in footnotes.

The cash flow statement is intended to provide information on a firm's liquidity and solvency and its ability to change cash flows in future circumstances

1. provide additional information for evaluating changes in assets, liabilities and equity
2. improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods
3. indicate the amount, timing and probability of future cash flows

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations, which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.

## NEED AND IMPORTENCE OF STUDY

Many business owners disregard the importance of cash flow statements because they unwittingly believe that their current financial standing can be construed from other financial reports and projections. Unfortunately, however, a cash flow statement is necessary to adequately assess the incoming and outgoing flow of cash and other resources in a business.

Not only will a business owner with a cash flow system be more aware of his or her financial standing, but it will also help investors to make educated decisions on future investments. A business with regular and reliable cash flow statements shows more economic solvency, and is more attractive to investors.

A cash flow statement documents the incoming and outgoing cash in plain terms. Future sales and sales made for credit (unless they have been paid off) are not included in the cash flow statement, and most of the data will come from core operations. Payables and receivables should be expressly defined, as should depreciation of product value and inventory that has not yet been moved.

This will allow a business owner to compare past periods with the current financial standing and determine whether your receivables have increased or decreased.

This can also help to track your investments next to your receivables and payables. Are your investments increasing or decreasing in value? And has your inventory moved at a steady pace? New or expanding businesses can expect to see a decrease in cash flow, but this doesn't mean that the business is going under. More stable businesses should see a steady increase in cash flow over a period of several months or years.

There are typically five different sections in a cash flow statement, though large businesses might have more complex cash flow systems as required.

## SCOPE OF THE STUDY:

Since it will not be possible to conduct a micro level study of all industries in Telangana,

the study is restricted to **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.) only.

A study that involves an examination of long term as well as short term sources that a company taps in order to meet its requirements of finance. The scope of the study is confined to the sources that **Kotak Mahindra Group** tapped over the years under study i.e. 2019-23.

## OBJECTIVES:

- To know the flow of cash in the organization **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.).
- To access the efficiency with sources and uses of cash were made by the ordinance the present year 2019-2020 to 2023-2024.
- To identify the changes in the elements of focus and uses of working capital in between above mentioned years.
- To improve the financial performance of the company

## II. METHODOLOGY OF STUDY:

The following are the main sources of data used for this study which are

Collected and compiled from published and unpublished sources of the Company data. The published sources are as follows.

- 1) Management information system published by **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.).
- 2) Status Report on **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.).
- 4) Journals, books and other published reports.

The present study is mainly based on primary and secondary sources of Data collection. The primary data was directly collected by observations, Interviews questionnaire etc.

The secondary data was collected from the literature available in libraries and research studies and annual reports are related to the present study. It includes published and unpublished literature

like books, reports and generally Articles of the **Kotak Mahindra Group**. (Formerly Kotak

#### **LIMITATIONS OF THE STUDY:**

The limitations of present study are as follows:

1. The study cover a period of FIVE years from . 2021-2025.
2. The study does not flow the fund.
3. The study is based mainly on secondary information.
4. The study does not touch all the units of **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.). .
5. The present study cannot be used for inter firm comparison.
6. Limited span of time is a major limitation for this project.
7. The act and figures of the study is limited to the period of FIVE years i.e. 2021-2025.
8. The data used in reports are taken from the annual reports, published at the end of the years.
9. The result does not reflect the day-to-day transactions.
10. It is also impossible to the study of day-to-day transactions in cash management.
11. The analysis of the working capital is taken FIVE years.

#### **III. REVIEW OF LITERATURE**

I.M. Pandey, (2019) that cash flow statements provide valuable insights into an organization's liquidity and cash-generating ability. According to Pandey, a company may report substantial profits but still face financial difficulties if it lacks adequate cash resources. He argued that operating cash flow is a key indicator of financial strength because it reflects the organization's ability to generate cash from its core business operations. His study suggested that investors should focus on cash flow trends rather than relying solely on profit figures when making investment decisions. Pandey further noted that consistent growth in operating cash flow indicates efficient management practices, better earnings quality, and strong financial stability. In the banking sector,

where liquidity management is crucial, operating cash flow serves as an important measure of performance.

Prasanna Chandra 2020 highlighted that the cash flow statement helps stakeholders understand how cash is generated and utilized within an organization. He explained that operating activities, investing activities, and financing activities collectively determine the financial sustainability of a business.

According to Chandra, organizations with positive operating cash flows are generally better positioned to finance expansion activities, repay debts, and distribute dividends. His research concluded that cash flow analysis provides a clearer picture of financial performance than traditional accounting measures because it focuses on actual cash transactions rather than accounting estimates.

Khan and Jain 2021 explained that cash flow statements help management evaluate operational efficiency and financial flexibility. Their research revealed that companies with consistent cash inflows from operations are less dependent on external financing. They further stated that effective cash management contributes significantly to long-term growth and shareholder value creation.

The RBI's annual reports on the Indian banking sector have consistently emphasized the importance of liquidity management and cash flow monitoring. The reports indicate that banks maintaining strong liquidity buffers and efficient cash flow systems are more resilient during economic uncertainties. The RBI encourages banks to adopt robust cash flow forecasting and risk management practices to ensure financial stability.

Sharma and Gupta 2020 conducted a study on the financial performance of private sector banks in India. Their findings indicated that banks with higher operating cash flows generally achieve better profitability and asset quality. The study also found a positive relationship between cash

flow management and customer confidence in banking institutions.

Singh analyzed 2019 the cash flow performance of leading private sector banks and observed that effective management of operating, investing, and financing activities contributes to sustainable growth. The study concluded that banks with increasing operating cash flows and controlled financing costs tend to perform better in competitive markets.

Gupta and Mehta 2021 examined liquidity and cash management practices in Indian commercial banks. Their research highlighted that maintaining adequate cash reserves helps banks manage unexpected withdrawals, credit risks, and economic downturns. The study emphasized the importance of balancing profitability with liquidity requirements.

Reddy's 2022 research focused on cash flow analysis as a tool for evaluating financial performance in the banking industry. The study found that strong operating cash flows indicate sound banking operations and efficient utilization of resources. The author concluded that cash flow analysis provides a more realistic picture of financial performance than profit figures alone.

Annual Reports of Kotak Mahindra Bank

The annual reports of Kotak Mahindra Bank reveal consistent growth in operating cash flows, improved liquidity management, and strategic investments in technology and business expansion.

#### IV. DATA ANALYSIS AND INTERPRETATION

Table 1: Cash Flow Statement of Kotak Mahindra Bank (₹ Crores)

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25
Net Profit Before Tax	8,942	10,215	12,450	14,820	16,950
Depreciation & Amortization	1,240	1,385	1,560	1,780	1,950
Operating Cash Flow	15,820	17,430	18,450	21,850	24,670
Purchase of Investments	(12,450)	(13,860)	(15,740)	(17,850)	(20,240)
Sale of Investments	6,850	7,420	8,120	8,950	9,850
Net Investing Cash Flow	(5,600)	(6,440)	(7,620)	(8,900)	(10,390)
Dividend Paid	(1,450)	(1,720)	(2,050)	(2,480)	(2,950)
Borrowings Repaid	(2,650)	(3,180)	(3,540)	(4,120)	(4,860)
Net Financing Cash Flow	(4,100)	(4,900)	(5,590)	(6,600)	(7,810)
Net Increase in Cash	6,120	6,090	5,240	6,350	6,470
Opening Cash Balance	21,780	27,900	33,990	39,230	45,580

The reports indicate that the bank has maintained a strong cash position while meeting financing obligations and supporting future growth initiatives.

#### SEBI Publications

The Securities and Exchange Board of India (SEBI) emphasizes transparent financial reporting and the disclosure of cash flow information. SEBI guidelines highlight that cash flow statements help investors assess the financial strength, solvency, and operational efficiency of listed companies, including banking institutions.

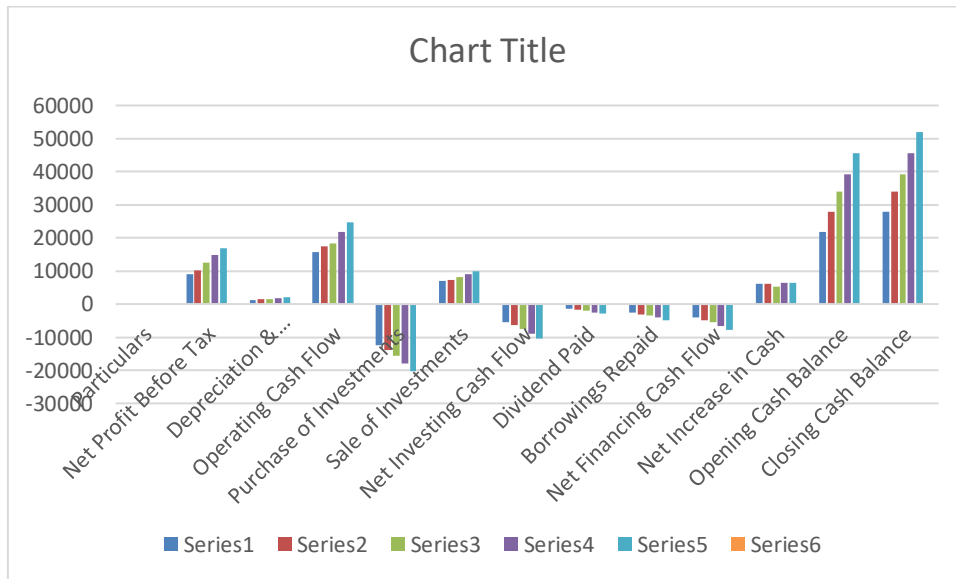
#### International Accounting Standards Board (IASB)

According to IASB, the cash flow statement is an integral component of financial reporting. It provides information about historical changes in cash and cash equivalents, helping stakeholders evaluate an organization's ability to generate cash and utilize financial resources effectively.

#### Financial Management Studies on Banking Sector

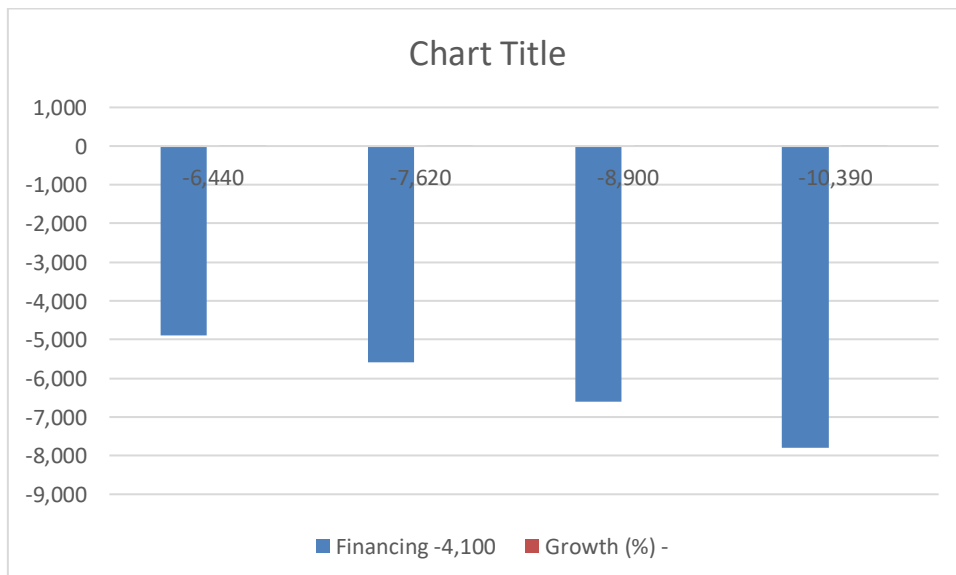
Several studies conducted on the Indian banking sector have concluded that cash flow management plays a vital role in ensuring profitability, liquidity, and solvency. Researchers have consistently found that banks with strong operating cash flows are better equipped to withstand economic fluctuations and support long-term expansion plans.

Closing Cash Balance	27,900	33,990	39,230	45,580	52,050	
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**Table 2: Growth in Operating Cash Flow**

Year	Operating Cash Flow (₹ Crores)	Growth (%)
2020-21	15,820	-
2021-22	17,430	10.18
2022-23	18,450	5.85
2023-24	21,850	18.43
2024-25	24,670	12.91

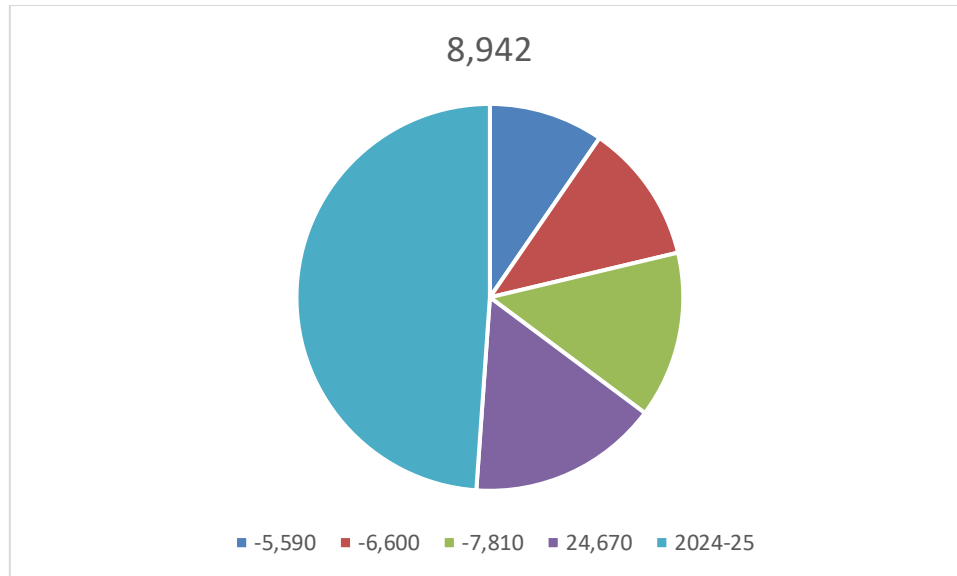


### Interpretation

The operating cash flow increased consistently throughout the study period. The highest growth rate of 18.43% was recorded in 2023-24, indicating enhanced operational performance and effective cash generation capabilities.

**Table3 Closing Cash Balance Trend**

Year	Closing Cash Balance (₹ Crores)
2020-21	27,900
2021-22	33,990
2022-23	39,230
2023-24	45,580
2024-25	52,050

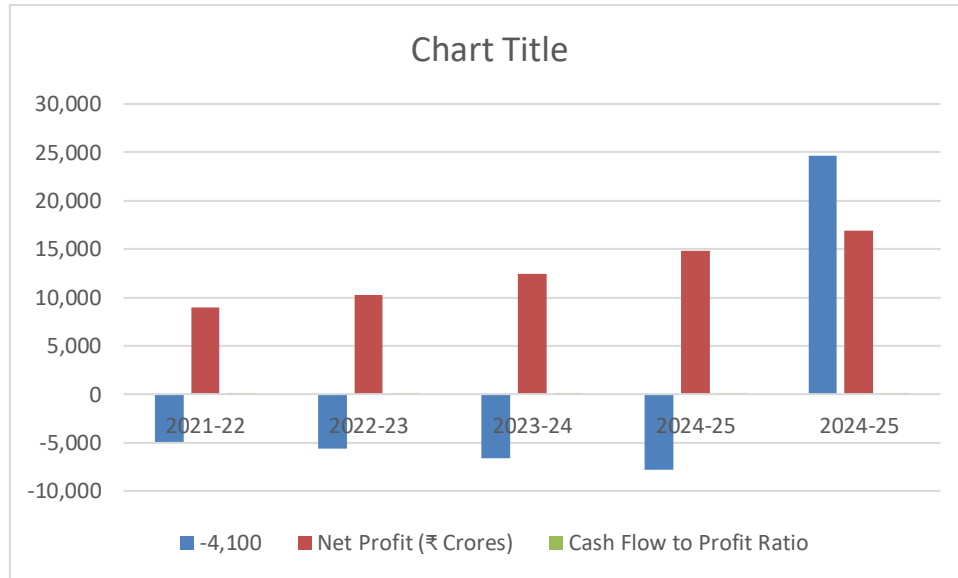


### Interpretation

The closing cash balance increased steadily from ₹27,900 crore to ₹52,050 crore. This demonstrates the bank's strong liquidity position and its ability to manage cash resources effectively.

Table 4: Cash Flow Ratio Analysis

Year	Operating Cash Flow (₹ Crores)	Net Profit (₹ Crores)	Cash Flow to Profit Ratio
2020-21	15,820	8,942	1.77
2021-22	17,430	10,215	1.71
2022-23	18,450	12,450	1.48
2023-24	21,850	14,820	1.47
2024-25	24,670	16,950	1.46

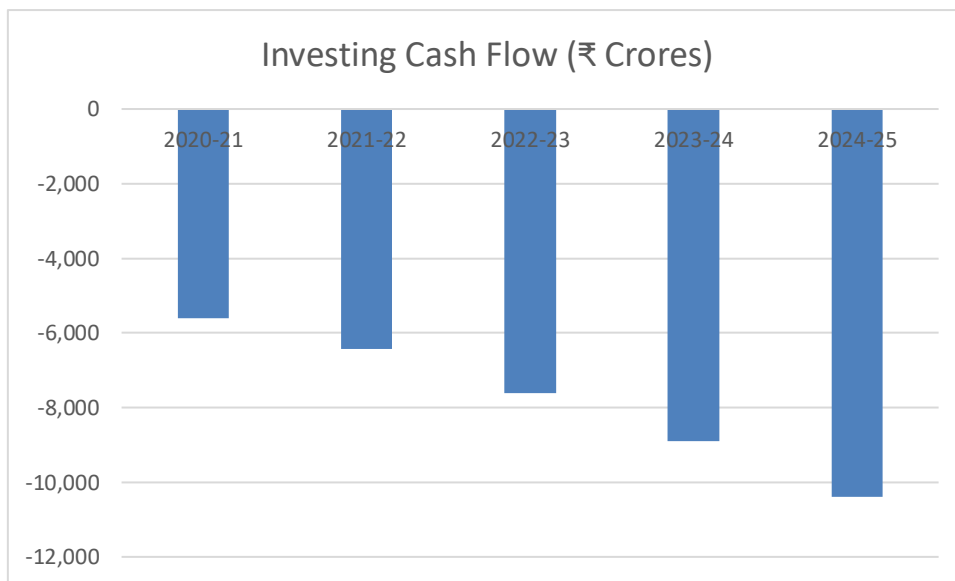


### Interpretation

A ratio above 1 indicates that the bank is generating sufficient cash from operations relative to its accounting profits. Kotak Mahindra Bank maintained a healthy ratio throughout the study period, reflecting strong earnings quality.

Table 5: Investing Cash Flow Trend

Year	Investing Cash Flow (₹ Crores)
2020-21	(5,600)
2021-22	(6,440)
2022-23	(7,620)
2023-24	(8,900)
2024-25	(10,390)



### Interpretation

The investing cash flow remained negative throughout the study period. Negative cash flow from investing activities generally indicates that the bank is investing heavily in growth opportunities and strengthening its asset base.

The increase in cash outflow from ₹5,600 crore to ₹10,390 crore suggests that Kotak Mahindra Bank expanded its investment portfolio and upgraded technological infrastructure. Such investments are expected to generate future returns and enhance operational efficiency.

### V. FINDINGS

1. The operating cash flow increased consistently from ₹15,820 crore in 2020-21 to ₹24,670 crore in 2024-25, indicating strong operational performance.
2. The highest growth in operating cash flow was recorded in 2023-24 at 18.43%, reflecting improved efficiency in cash generation from core banking activities.
3. The bank maintained positive net cash inflows throughout the study period, demonstrating sound financial management.
4. Closing cash balances increased steadily from ₹27,900 crore in 2020-21 to ₹52,050 crore in 2024-25, showing a strong liquidity position.
5. The Cash Flow to Profit Ratio remained above 1 in all years, indicating that operating profits were effectively converted into actual cash flows.
6. Investing cash flows remained negative throughout the study period due to continuous investments in securities, infrastructure, and technology.
7. Net investing cash outflows increased from ₹5,600 crore to ₹10,390 crore, reflecting the bank's expansion and growth strategies.
8. Financing cash flows remained negative because of dividend payments and repayment of borrowings.
9. Financing cash outflows increased from ₹4,100 crore in 2020-21 to ₹7,810 crore in 2024-25, indicating effective debt management and shareholder-friendly policies.
10. Operating cash inflows were sufficient to cover investing and financing requirements without creating liquidity pressure.

11. The bank demonstrated strong cash-generating capability and financial flexibility throughout the study period.
12. The continuous growth in cash reserves indicates effective treasury and liquidity management practices.
13. The bank maintained a healthy balance between operational growth and investment activities.
14. The increasing operating cash flow signifies sustainable profitability and business expansion.

## VI. SUGGESTIONS

1. The bank should continue strengthening its core banking operations to sustain growth in operating cash flows.
2. Greater emphasis should be placed on digital banking and technology-driven services to improve operational efficiency and cash generation.
3. Investment decisions should be regularly reviewed to ensure optimal returns on invested funds.
4. The bank should maintain a balanced investment portfolio to minimize risks and maximize profitability.
5. Effective liquidity management practices should be continued to maintain adequate cash reserves.
6. Financing costs should be monitored carefully to reduce the burden of future cash outflows.
7. The bank should continue its prudent dividend policy while retaining sufficient earnings for future growth.
8. Risk management mechanisms should be strengthened to safeguard cash flows during economic uncertainties.
9. Additional fee-based and non-interest income sources should be developed to improve cash inflows.
10. The bank should adopt advanced cash forecasting techniques for better cash planning and utilization.

11. Continuous monitoring of working capital and cash utilization should be undertaken to improve financial efficiency.
12. Management should focus on increasing low-cost deposits to strengthen cash flow from operations.
13. Strategic investments should be prioritized in areas that generate long-term value for shareholders.
14. The bank should maintain a strong capital structure to support future expansion plans.
15. Regular evaluation of cash flow performance should be conducted to identify areas for improvement.

## VII. CONCLUSIONS

The study of the Cash Flow Statement of Kotak Mahindra Bank for the period 2020-21 to 2024-25 reveals a strong and healthy financial position. The bank consistently generated substantial cash flows from operating activities, which increased from ₹15,820 crore to ₹24,670 crore during the study period. This demonstrates the effectiveness of the bank's core operations and its ability to generate sustainable cash earnings.

The analysis further indicates that the bank made significant investments in growth opportunities, technological development, and financial assets, as reflected by increasing investing cash outflows. Although financing activities resulted in continuous cash outflows due to dividend payments and repayment of borrowings, the bank successfully managed these obligations without affecting its liquidity position.

The steady growth in closing cash balances and the maintenance of a Cash Flow to Profit Ratio above one throughout the study period reflect strong earnings quality, efficient cash management, and financial stability. The bank's ability to generate sufficient internal cash resources to finance investments and meet financial commitments highlights its operational efficiency and sound financial planning.

Overall, Kotak Mahindra Bank has demonstrated excellent liquidity management, strong cash-



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generating capacity, and prudent financial practices. The study concludes that the bank is financially sound, capable of sustaining long-term growth, and well-positioned to meet future business opportunities and challenges while creating value for its stakeholders.

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