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Study on Financial Statements of Listed Companies from the Perspective of Cash Flow Quality

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ABSTRACT
Profits from operations are the basis of a company's growth and reflect not only the company's operating conditions, but also its capacity for economic activity and development potential. Therefore, the level of operating profit is crucial to a company's growth, which requires not only sufficient cash but also continuous and stable access to capital. However, relatively less research has been conducted on the quality of operating cash flows. The authors suggest that the study of operating cash flow quality is beneficial to the improvement and development of cash flow analysis systems. It should become an important part of a complete financial statement analysis system. This paper will discuss this initially.

KEYWORDS
Cash flow; Company; Statement

Introduction: Business quality of operating cash flow is an indicator that evaluates its actual operation, reflects the development of its finances and profits, and enhances its sustainability. In normal conditions, a company's purchase and credit policies are relatively stable and its sales operations are less likely to fluctuate. Therefore, a company's operating cash flow should maintain a certain balance, otherwise it may be exaggerated or concealed.

1 Analysis of Operating Cash Flow Adequacy

1.1 Adequacy of Absolute Amount

Companies' operating cash flow is an important indicator of their operating capacity and scale expansion. In order to maintain normal production and operation, a company must ensure that its operating cash flow can offset current expenses, including (i) daily expenses, (ii) prior period expenses, and expenses that may be recovered in the future, and (iii) expenses that have been charged to current profit and loss but have not yet been paid. Simple reproduction at its current scale can only be sustained if the company's operating cash flow is adequate.

1.2 Adequacy of Relative Amount

Firstly, the cash flow to capital expenditure ratio is an important technical measure to measure a firm's use of flowable capital inputs to achieve firm operating objectives, it reflects the cost of flowable cash incurred by the firm purchasing the firm, intangible assets or some long-term liabilities, and the function of the firm using these flowable capital inputs to maintain or extend its operating range. When the index is higher, it indicates that the degree of corporate connotation expanded reproduction is higher, the function of using its own surplus to produce future cash flow is stronger, and the performance of corporate liquidity capital input is also better. However, when the index is low, it indicates that the corporate liquidity required for capital investment cannot be all supplied by its operating activities, some or many of the corporate liquidity inputs need to be made up for by external financing, so that the corporate financial management operation risk increases, the duration and safety of the corporate operation and profit are threatened, and the efficiency of corporate turnover capital input will also be severely affected. Operation with sufficient cash flow can effectively guarantee the operation risk of corporate financing activities, which can not only meet the financing expenditure needs of the enterprise, but also be used to make up the sum of money, distribute profits and pay dividends.

Secondly, when the ratio of assets repaid on maturity liabilities is below 1, it indicates that the enterprise's own level of compensation is at a low level and operating cash flows are insufficient. In order to establish good financial credit, the business should invest capital at the right time, which generally consists of external investments, current realised investment proceeds or cash proceeds from the sale of business property. If the ratio is above 1, the company has a high repayment capacity and can effectively repay its debts through sound financial management and capital management, thus improving its financial position and maintaining good financial credit. The business has excellent "cash generation" ability and financial flexibility, and has sufficient operating cash flow to cover its arrears as they fall due, with no payment risk and a high degree of autonomy.

2 Analysis of the Stability of Operating Cash Flows

Firstly, the cash inflow composition ratio is an important indicator of the present value generated by the operating activities of a business. It reflects the extent to which an enterprise's significant business activities contribute to the company's cash flow and can help us to understand the sources and realities of the enterprise's cash. If the ratio is high, it indicates that the funds generated by the main business economic activities of the enterprise are clearly greater than those generated by the rest of the operating activities, which indicates a scientific and reasonable financial structure, a stable financial base and good quality operating cash flows. On the contrary, if the ratio is low, it indicates that the enterprise's main business economic activities are weak in generating cash, with most of the funds coming from non-core business items and lacking a stable and reliable source of core capital flow to sustain the operation and development of the enterprise. Due to the weak financial foundation, the enterprise's operating cash flow is unstable and of poor quality.

Secondly, the cash flow ratio is an important indicator of the future sources of cash for a business. It consists of the funds incurred in the purchase of products and the receipt of services and the funds generated by its activities. The importance of this indicator is that it reflects how the SME uses its liquidity and ensures that the SME's cash flow has some stability. The ratio allows for an effective determination of the possession of the SME's liquidity by related parties and allows for an accurate assessment of the SME's future main service activities in order to better understand whether the composition of the company's cash expenditure is correct and whether there are large and unusual cash outflows in the current period.

3 Analysis of Operating Cash Flow Growth

Important Indicators: Growth rate of operating cash flow = Cash entry from previous activities + Cash discharge from current activities. There are three specific cases:

First, when the ratio is close to 1, it shows that the company's internal liquidity has not increased significantly, and the enterprise's ability to increase operating liquidity is insufficient. Therefore, on the one hand, through the analysis of relevant indicators, we should timely understand the changing trend and current situation of the company's liquidity, explore the specific factors that can not increase, and provide guidance for improving the dynamic management of cash flow in the future. At the same time, we should summarize the information about liquidity related to financing and operation activities in order to better control the company's operating liquidity and improve the company's development level. We need to focus on the company's future business size changes and make a reasonable estimate of its future liquidity. In addition, future cash flow growth should be assessed based on the company's plan and cash budget to ensure they are in sync with the company's overall development.

Second, when the ratio is greater than 1, it indicates that the operating liquidity of the enterprise is increasing, which helps the enterprise to achieve greater development, and can predict its future development trend. However, different types of cash flow increase methods will have a distinct impact on the enterprise, resulting in large differences in the quality of liquidity. Increases in operating cash flow can only be divided into three categories: (1) Debt-driven, i.e. an increase in operating payables in the current period, which increases net cash flow by delaying payments, can damage the reputation of the enterprise and increase the pressure on the enterprise to repay its debts in the future. In fact, if necessary expenses are excluded, the liquidity of the enterprise may be negative, which is not of great significance to the development of the enterprise. The quality of cash flow in this situation is obviously not ideal.

The implementation of asset conversion can effectively reduce the cost of capital occupancy, and then improve the efficiency and profit level of enterprises. However, since the reduction of inventory costs is the result of more related costs in the previous year, and the initial receivables recovered do not accurately reflect the income earned during the current period, the implementation of this asset conversion does not accurately reflect the changes in operating performance during the current period. The quality of operating cash flow in this way is not ideal because large enterprises may not sustain the decline of operating receivables for long due to the existence of large abnormal capital injections such as sudden repayments at the end of the year. (3) Benefit-driven, that is, the company promotes the increase of operating profit by improving its ability and profit level. The advantage of this approach is that it can effectively improve the performance of the company, so that the operating cash flow reaches the desired level.

Thirdly, when the ratio is below 1, it indicates that the company's profits are gradually declining. Cash inflows are the cornerstone of a company's survival and growth, and if net cash flows continue to decline, it will raise integrity issues and affect business growth. The occurrence of this situation therefore signals that the company's future prospects are not promising. It is particularly important to examine the issues involved in depth and to take effective measures to address them. In addition, it should be noted that a single financial figure often does not accurately reflect the actual situation of a business, and that it is not unusual for some companies to experience temporary or appropriate reductions in operating cash flows due to factors such as long-term An important factor is the increase in the value of inventories due to product restructuring, which may result in a temporary decrease in operating cash flows for some businesses.

4 Conclusion

Cash flow statement is a key tool to measure a company's finances. It reflects the company's capital flow and helps investors make informed decisions. We will combine the qualitative and quantitative analysis methods to conduct in-depth research on cash flow tables in order to better understand the financial data of listed companies and provide more accurate investment reference for investors.

About the author

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