African Journal of Basic & Applied Sciences 7 (6): 350-356, 2015
ISSN 2079-2034

DOI: 10.5829/idosi.ajbas.2015.7.6.1156

The Effect of Cash Flow Statement on Companies Profitability (A Study of Some Selected Banks in Nigeria)

Okpe Ikechukwu, Duru Anastesia Nwakaego and Alor Celestine

Department of Accountancy,
Enugu State University of Science and Technology, Enugu State, Nigeria

Abstract: The general objective of this study is to ascertain the effect of cash flow statement on companies' profitability in Nigeria. The study involved a survey of three Banks; Fidelity bank of Nig Plc, First bank of Nig Plc and First city monument Bank Plc. Information were obtained from the cash flow statements contained in the Annual reports of these banks in the year 2009-2013. Multiple regression was the Analytical tool used in testing the Hypotheses. The results of the study revealed that Operating and Financing cash-flows have significant positive effect on company's profitability in the Banking sector of Nigeria. It was also empirically verified that Investing cash flow has significant negative effect on the profitability of these companies under study.

Key words: Cash flow · Operating · Investing · Financin and multiple regression

INTRODUCTION

Due to the relevance of cash flow in the company's operations and performance, corporate organizations need to develop a suitable cash flow mix and apply it in order to maximize share holders values. Uremadu [1] sees cash flows of an organization as those pools of funds that the company commits to its fixed assets, inventories, account receivables and marketable securities that lead to corporate profits. The ability of the company to effectively choose adequate sources of funds to finance its operations will differentiate strong cash flow government and poorly manage cash flows [2], 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 cash flows which would be used in the company's operations to raise its productivity or achieve performance. This process should be based on the criteria well drawn up by finance manager after making a careful financial planning and control for the company. Cash flows is an index of the money that is actually received by 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 solvent. The profit is not cash. The solvency, flexibility and the financial performance of the firm are set on the firm ability to generate positive cash flows from the operating, investing and financing activities [4]. Cash flows represent all inputs and outputs liquidities and cash equivalents. Liquidities represent cash on hand and demand deposits. Cash equivalents are short- term investment with a liquididity degree that can be easily converted into cash with an insignificant risk of value change. According to Adelegan [5], Cash flows are more direct measure of liquidity and 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 [6]. Financial statements translate the financial activity of the enterprise into a more or less objective set of numbers, which provide valuable information about the firms performance and about its possible problems and its potential in the future [7]. The importance of cash flows cannot be overemphasized mainly because the users of accounting information are particularly interested in the cash of the company that is published in its financial statement [8]. According to [9] internally, manager, need

Corresponding Author: Okpe Ikechukwu, Department of Accountancy,
Enugu State University of Science and Technology, Enugu State, Nigeria.

to know the current financial position of the firm (performance and problem), continuing with problems and control functions.

According to [10], supplies are interested in the firm liquidity because their rights are generally on a short-term and in this case the company's ability to pay is best reflected by the liquidity indicators. According to [11], investors in bonds, who ordinarily lend the firm on medium or long term for remuneration, are rather interested in the company's ability to generate cash flows for medium and long –term coverage of debt services. It has been argued that there is weak governance of cash flows in the industries and it allows managers to pursue personal goals whereby putting management's interest at odds with the interest of shareholders [12-15] who further argue that cash flow and corporate performance have a significant relationship. These arguments have been countered by researchers in related studies as [5, 8, 12] who argued that cash flows and corporate performance have a significant positive relationship. These disagreements among the researchers have created a gap, thus warranting further examination on the phenomenon. The traditional methods of financial analysis that companies have been using for a long time to assess their financial performance are plagued by a number of drawbacks. The income statements and balance sheet cannot sufficiently evaluate the financial performance of a firm as the cash flow statements have proved to be. It is this situation that necessitated this research work which is aimed at examining the effect of cash flow on company's performance in fidelity Bank of Nig Plc, First Bank of Nig Plc and FCMB Nigeria Plc.

Furthermore, accounting information from both the balance sheets and income statement are also less reliable with regards to the liquid analysis of a company [6]. In the right of the above, the study hopes to serve as a basis to enable shareholders, management, accountants, auditors, investors and creditors to break away from the conventional use of accounting system for the evaluation of the performance of companies. In their place, the cash flow statement would be used for performance analysis. Cash flow had to do with operating and investing activities. Operating activities had 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 had 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 base such as the balance sheet statement which by their nature are records of sunk cost and not relevant to further decision making. Hence this study is to create a basis of directing more research and management application of cash flow ratio more than traditional ratios.

Fidelity Bank Plc began operations in 1988 as Fidelity Union Merchant Bank Limited. By 1990, it had distinguished itself as the fastest growing merchant bank in the country. However, to leverage the emerging opportunities in the commercial and consumer end of financial services in Nigeria, in 1999, it converted to commercial banking and changed its name to Fidelity Bank Plc. It became a universal bank in February 2001, with a license to offer the entire spectrum of commercial, consumer, corporate and investment banking services.

Fidelity Bank is today ranked amongst the top 10 in the Nigerian banking industry, with presence in the major cities and commercial centers of Nigeria.

According to Google.com (electronic library) first bank of Nigeria plc. Was established in 1894 as the first bank in Nigeria, a premier in west Africa and the leading financial service solution provider in Nigeria. From being the only bank for decades weathered the banking exposure of the 1930's to 1950's followed by the era of government ownership and control to a flurry consolidations and then gradual growth in number banks up to the early 1980's. then yet another industry growth spurt in early 1990's when the banking sector was deregulated, leading to an industry shake-up in the late 1990's, which reduced the number of banks from 126 to 77. At later resuscitation and growth to 89 banks leading all through the seasons, first bank plc has remained resilient dependably dynamic and truly the first.

FCMB, established in 1982, has emerged as one of the leading financial services institutions in Nigeria and one of the top eight lenders in the country with subsidiaries that are market leaders in their respective segments. FCMB was incorporated as a private limited liability company on 20 April 1982 and granted a banking licence on 11 August 1983. On 15 July 2004, the Bank changed its status from a private limited liability company to a public limited liability company and was listed on the Nigerian Stock Exchange, by introduction, on 21 December 2004. As at December 2013, FCMB had 2 million customers, N1 trillion in assets, over 270 branches in Nigeria and a licensed banking subsidiary in the United Kingdom (FCMB UK) and a representative office in the Republic of South Africa.

Statement of the Problem: It is observed that the role of cash flow statement on company's performance in Nigeria has some problems to both investors and managers of business organizations who are either not aware of the importance of interdependence relationship that exist between investors and business organization.

Objectives of the Study: The general objective is to examine the effect of cash flow statement on company's performance in Nigeria. The specific objectives are as follows:

- To examine the effect of operational activities on Bank's profitability.
- To ascertain the effect of Financing activities on the profitability of the banks in Nigeria.
- To determine the effect of Investing Activities on the Profitability of Banks in Nigeria.

Hypothesis:
- Operational activities do not have any effect on the profitability of Banks.
- Financial activities do not have any effect on the profitability of Banks.
- Investing activities do not have any effect on Banks profitability.

Ali, *et al*. [4], studies the association between various earrings and cash flow measure of firm performance and stock returns. They use the simple and multiple regressions to analysis the data for a period of nine concretive years from 2003 to 2011. The study revealed that company's performance and cash flow have a significant negative relationship; furthermore, 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.

Chikashi [9], carried out an investigation of comprehensive income and firm performance. The case of the electric appliances industry of the Tokyo stock exchange. The researcher uses the data for the fiscal year of 2009 to 2011 and employs the pooled regressions (Panel data regression analysis). The study revealed that cash flows and firm performance have a significant negative relationship. In addition, comprehensive incomes published by the firms, were superior to other earring of cash flow variables in predicting their future stock return.

Adelegan [5], carried out an empirical analysis of the relationship between cash flow and dividend changes in Nigeria. The researcher used the ordinary least square (OLS) method to analyze the data on a sample of 63 quoted firms in Nigeria over a wider testing period from, 1984 to 1997. The empirical results reveal that the relationship between cash flow and firm performances is positively significant.

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

Brush, *et al*. [8], examines the free cash flow hypothesis for sales growth and firm performance. They used the white and Durbin- Watson tests on the data that covers the years 1988 to 1995. The results reveal that the firm performance and cash flow have a significant positive relationship. But different government conditions affect sales growth and performance in different ways.

Shahmoradi [12] examined the association between accounting earnings and stock returns in firm listed in Tehran. Stock exchange, he analyzes the data via person correlation and simple regression method. The study revealed that there is a meaningful relationship among net profit operating earring with stock returns.

Ashtiani [6] studies the relationship between accounting rations, operating cash flows, investments, financing and stock returns in Tehran stock exchange. The researcher used the Pearson correlation and simple liner regression to analyze the data of a sample of 650 listed companies for the years 1998 to 2004. The result showed that there is a meaningful relationship among the growing of operating earrings, growing of net profit, operating cash flows, investing cash flows with stock returns, but there is no meaningful relationship among the growing of trade sale, financing cash flows and stock return.

Thanh and Nguyen [13] carried out an investigation of comprehensive income and firm performance in Vietnam. They used the multiple regression to analyse the data, using a sample of 465 companies listed in Vietnam observed in period 2007 to 2010. The study revealed that firm performance decreases as number of bank relationship increase. Additionally, the study also indicate that cash flow has negative relationship with firms, return on equity, while assets have negative association with return on assets.

Frame Work for the Preparation and Presentation of Cash Flow Statement: Cash flow statement is prepared at the end of a fiscal period to show how cash was affected by the business operating investing and financing activities during the accounting period. The objective of cash flow statement is to provide a fair presentation (information) of movement of cash of an entity. Cash flow statement simply means a statement showing changes or movement of cash or cash equipment during a given period. Briefly it may be stated as showing various source of cash inflows and various head of cash out flows. It is prepared from income statement and changes in the working capital (current assets less current liabilities). Cash inflows are those which increase the cash position and cash out flows are those which decrease the cash position.

Section 7 of the international Financial Reporting standard, (1FRS7) required the preparation of cash flows statement by entities. The cash flow statement is separate financial statement that provides entity.

MATERIALS AND METHODS

Research Design: The Research design for this study is ex-post research design. This is because it deals with events that have taken place in the past.

Nature and Sources of Data: Secondary data were used in the study. This data were collected from the three (3) companies. List of banks which have been considered for study are First Bank, Fidelity Bank and First City Bank of Nigeria Plc.

Area of the Study: This study was carried out based on the effect of cash flow statement on the Financial performances of commercial banks in Nigeria. The data selected for 5 years (2010-2014) are used in this study.

Analytical Tool For The Study: The analytical tool used for this study for the test of hypotheses was multiple regressions.

Regression Model:

$$ROTA = B_0 + B_1\, OPCF + B_2\, INVCF + B_3\, FNCF + E$$

where;
B_0 = Value of x – intercept which is constant,
B_1, B_2 and B_3 = proportionate change in dependent variable due to independent variables, = 1 to 3 and E= error term
While

ROTA is Return on total assets
OPCF is operating activities
INVCF is investing activities **FINCF** is financing activities

STATEMENT OF HYPOTHESES

H_1: Operating activities has no significant effect on Bank profitability
H_2: Investing activities has no significant effect on Bank profitability
H_3: Financing activities has no significant effect on Bank profitability

Decision Rule

- If the sig- value is greater than 0.05. the null hypothesis is accepted and the result is not significant
- If the sig-value is less than 0.05, but greater than 0.01, the null hypothesis is rejected and the result is significant.

Interpretation of Result: In table above statistical analysis was conducted to determine the average effect of cash flows statement on the three selected commercial banks in Nigeria. The coefficient multiple determinant (R^2) is 0.770 reflects 23% contribution cash flows (OPCF, INVCF and FINCF) towards the profitability of listed commercial banks and remaining 77% variation in Return on total assets is because of other influencing factors most likely internal factors.

The coefficients multiple correlation (R) is 0.881 means that there is strong positive effect of cash flows on corporate performance. This simple means that a change is cash flows will automatically bring a change in corporate performance. This result confirms to prior empirical evidence that OPCF and (pare positively related cash Ashtiani, 2005).

The regression results of model which computes the effect of cash flows statement on corporate performance.

ROTA = B0+ B1 OPCF +B2INVCF+B3FINCF+ E
ROTA = 9.94 – 0.31 (OPCF) +1.21 (INVCF) – 0.054(FINCF)+ E

Decision:

H1: Since (sig-value > 0.05) and as hypothesized operating activities has a significant and positive effect on the Bank profitability at 5 and level of significance
H2: Since (sig-value > 0.05). Indicating investing activities has significant affect on the Bank profitability at 5% level of significance
H3: Since (sig-value > 0.05) Financing activities is observed to have a strong negative effect on ROTA at 5% level of significance.

Table 1: Data presentation and Analysis (In Million)

First Bank Plc	2009	2010	2011	2012	2013
Operating Activities					
Cash generated from/(used) in operation	(262,118)	(96,515)	419,735	101,442	29,691
Tax paid	(1,318)	(12,122)	(2,517)	(12,112)	15,218
Value added tax remitted	(1344)	(1,029)	(1295)	(1029)	(1,029)
Gratuity payment to staff	-	-	3688	(4,896)	(5143)
Net cash from operating activities	(264,791)	83,374	412235	83,405	8.301
Financing Activities					
Dividend paid to shareholders	(33,565)	(2,902)	(19,579)	(2,902)	(2,902)
Proceeds of near borrowings	431	91,553	16,139	91,553	91,553
Repayment of borrowings	-	(2,409)	(47,654)	(2,409)	(2,409)
Net cash from generated (used)in financing activities	(33,134)	86,242	(51,094)	86,242	86,242
Investing Activities					
Purchase of long-term investment securities	(20,685)	(24,501)	(326,538)	(24501)	(16,467)
Redemption/sale of investments	3,803	524	488	541	1,752
Investment income dividend received	1,876	3570	5,801	3524	513
Additional investment in subsidiaries	(1,990)	(1,000)	(6503)	(1,000)	(1,000)
Additional investment in associates	-	-		-	-
Additional to investment property	-	-		-	-
Purchase of property, plant and equipment	(13,505)	(14,513)		(14,573)	(2,599) + (14874)
Proceeds from sale of property and equipment	245	308			948
Net cash used in investing activities	(30,256)	35,611		(35,641)	(31,189)
(Decrease)/increase in cash and cash equivalents	(328,181)	134,001	(21,463)	(134,008)	63,354
Analysis of changes in cash and cash equivalents					
At start of the period	652,291	324,110	4,58,116	324 110	384,996
At end of the period	324110	458,116	479,579	458 116	448,350
(Decrease)/increase in cash and cash equivalents	(3,28,181)	134,006	21,463	134006	63,354

Table 2: Fidelity Bank Plc (In Million)

Fidelity Bank Plc	2009	2010	2011	2012	2013
Operating activities					
Cash generated from operation	(65,045.510)	(91,509)	(151,391)	13,269	(135,053)
income Tax paid	(788,741)	93,503	161,145	(1,857)	(2275)
Interest received	-	6,300	16,492	89,603	86,275
Retirement benefits paid	-	-	(1993)	(994)	(492)
Interest paid	-	(2,275)	(2424)	(56,237)	(49.565)
Net cash flours from operating activities	64,256,769	15,047	43,178	43789	(101,091)
Investing Activities					
Purchase of property, plant and equip	460,430	(5,454)	(5121)	(4,956)	(5,454)
Proceeds form sale of property and equip	1927,419	141	749	875	131
Purchase of intangible assets	(3,184,542)	-	(189)	(565)	-
Acquisition of investment securities	(5,835,468)	-	48	95,851	34,211
Dividend received	-	-	-	945	725
Net cash flour used in investing activities	(663,2161)	(5,313)	(4,573)	(99,552)	(29,613)
Financing Activities					
Dividends paid	(1,235,316)	(6,084)	(4,055)	(4057) &	(6084)-
Debt issued and other borrowed funds	11747970	69,768	-	47,221	70,328
Net cash flows used in financing activities	10,512654	63,684	(4,055)	43,156	64,244
Increase in cash and cash equivalents	77,550,124	73,418	34,610	(12,607)	(7,234)
Cash and cash equivalents at start of the year	139,137,040	215,291	180,682	139,351	146584
Cash and cash equivalents at end of year	61,586,916	288,709	215,292	126,743	139,351

Table 3: Fcmb Cash Flow Statement (In Million)

First City Monument Bank	2009	2010	2011	2012
Operating activities				
Cash generated from operation	(15,259,564)	65,045510	(15,386,158)	65,280,811
Tax paid	(1,176,719)	(788,741)	1,156,213	(784,648)
	(16,436,583)	64,256,769		64,496163
Investing Activities				
Investment in subsidiaries	-	-	(150)	(90,00)
Investment income	74,957	461,816	74,957	461,816
Proceeds from disposal of investment	8,363,552	927,419	8,363,552	1,927,419
Purchase of investment securities	(3,134,191)	(3,184,542)	(3,134191)	(3,184,484)
(purchase)/sale of dealing securities	3,829,941	(5,835,468)	3,879,705	(5,734,974)
Proceeds form disposal of fixed assets	18,788	460,430	18,788	457,063
purchase of fixed assets	(5,685,618)	(7,263,063)	5,630,619	(7,258,741)
	3,467,429	13,433,408	3,572,042	(13,421,901)
Financing Activities				
Net proceeds from issue of ordinary shares	90,764040	-	90,763,990	-
Dividends paid	(3,325,851)	(1,235,316)	(3,325,851)	(1235,316)
Short term borrowing	12.018,337	514,288	12,018,337	514,285
Long term borrowing taken/(repaid)	-	11,233,685	-	11,233,685
	99,456,526	10,512,654	99,456,476	10,512,654
Increase in cash and cash equivalents	86,487,372	61,336,015	86,486,147	61,586,916
Analysis of changes in cash and cash equivalents during the period				
Balance at beginning of the year	139,137,140	77,801,125	139,137,040	77,550,124
Balance at end of year	225,624,512	139,137,140	225,623,157	139,137,040
Increase in Cash and cash equivalents	86,487,372	61,336,015	86,486,147	61,586,916

Table 4: Multiple regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.881(a)	.776	.104	4.94574

a Predictors: (Constant), FINCF, OPCF, INVCF

Table 5:

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	84.740	3	28.247	1.155	.579(a)
	Residual	24.460	1	24.460		
	Total	109.200	4			

a Predictors: (Constant), FINCF, OPCF, INVCF
b Dependent Variable: ROTA

Table 6: Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
Model		B	Std. Error	Beta	B	Std. Error
1	(Constant)	9.936	9.639		1.031	.490
	OPCF	-.311	.281	-.657	-1.107	.468
	INVCF	1.208	2.412	.337	.501	.704
	FINCF	-.054	.130	-.289	-.413	.751

a Dependent Variable: ROTA

Table 7: Table average cash flows for the past five years and return on total assets (ROTA) in three selected Banks for the period 2010-2014

Year	Dependent variable co-operate performance ROTA (%)	Independent variable OPCF N Billions	Independent variable INVCT N Billions	Independent variable FINCF N Billions
2010	2	26.986	3.377	67.001
2011	5	21.452	4.491	3.554
2012	8	5.66	1.305	33.171
2013	12	21.541	4.519	3.547
2014	15	1.852	4.861	4.065

CONCLUSION AND RECOMMENDATION

The study established that cash flows have significant and positive effect on companies' profitability in the banking sector in Nigeria. The study supports both theoretical and empirical evidence of prior studies that operating and financing cash flows impact positively on the profitability of companies in the banking sector of Nigeria provided a strong governance policy is operational in the industry (Brush *et al* 2000).

REFERENCES

1. Uremadu, S.O., 2004. Financial management: concepts, analysis and applications. Enugu, precision publisher limited.
2. 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.
3. Albrecht, W.S., 2003. Fraud Examination Manson, Ohio, Thomson and South- Western Ali M, Alireza, A and A. Jalal, 2003. The association between various Earning and cash flow measure of firm performance and stock return: Some Iranian evidence. International Journal of Accounting and Financial Reporting, 3(1): 24-39.
4. Ali, M., A. Alireza and A. Jalal, 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.
5. 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.
6. 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.
7. Boodhoo, R., 2006. Capital structure and ownership structure: a review of literature" The journal of online education, January Edition, pp: 1-8.
8. Brush, T.H., P. Bromily and M. Hendrickx, 2000. The free cash flow hypothesis for sale growth and firm performance. Strategic Management Journal, 2: 455-472.
9. 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.
10. Elliot, B. and J. Elliont, 2002. Financial Accounting and Reporting. 12th edition, London, Prentice Hall/financial Times.
11. Heinz, W. and K. Harold, 2005. Management. A Global Perspective 11th edition. New Delhi; Tata McGraw-Hill Publishing Company.
12. Shahmoradi, M., 2002. The association between accounting earnings and stock returns in firms listed in Taiwan stock exchange. Behesti, University of Shahid.
13. Thanh, V.H. and M.H. Nguyen, 2013. The effect of Banking relationship on firm performance in Vietnam. International Journal of Economics and Finance, 5(5): 148- 158.
14. Adebiyi, K., A *et al*., 2006. ICAN Study Pack Financial Accounting. Nigeria; vol. I, Publishing Ltd.
15. Akintoye, I.R., 2008. Effect of capital structure on firms performance. The Nigeria experience" European Journal of economics, Finance and Administrative Science, 3(10): 233-243.