Cash Flow Projection Analysis on Company's Going-Concern During the Covid-19 Pandemic

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Abstract— **The risk of the company's going-concern during the COVID-19 pandemic is the focus of a risk-based audit. This audit approach evaluates a company's strategic, financial, and operational risks. Companies that are predicted to go bankrupt are not necessarily unable to survive in their business activities. The company can prepare short-term cash flow projections with various scenarios and assumptions and focus more on cash flow than profitability. The company describes the cash flow projections in the form of a cash budget that is prepared based on cash inflows and outflows. This study aims to analyze cash flow projections for going-concern companies predicted to go bankrupt. This research sample is predicted to go bankrupt during the Covid 19 pandemic, namely companies in the hospitality, contractor, and tour and travel sectors. Data analysis was carried out with an interactive analysis model. Based on the research results of hotel companies, contractors, and tour and travel companies in preparing cash flow projections using a short-term cash inflow and cash outflow approach that only focuses on the company's operating activities.**

Keywords—Cash Flow Projection, Operating Activities, Cash Budget

Introduction

A risk-based accounting audit approach can be applied through the ATLAS (*Audit Tool and Linked Archive System*) examination paper, which consists of three stages: *risk assessment, risk response, and reporting* [8]. Research [5] states that the covid-19 pandemic is an event whose existence is in an *external environment* that is relatively *uncontrollable* or beyond the control of the company. The direct impact that affects business entities is related to conventional business activities in marketing, finance, human resources, and operations. The business sectors whose development was constrained and even experienced a decline during the COVID-19 pandemic were transportation, tourism, shopping centers, and *offline* businesses, which only focused on direct consumer visits. Auditing Standard 570 [4] states that an entity's going concern is staying in business for a predictable future. The general-purpose financial statements are prepared on a going concern basis unless management intends to liquidate the entity or cease operations.

Research [1] states that the risk assessment and Z-Score testing on companies' going-concern during the covid-19 pandemic on financial, operational, and other aspects: Firstly, the hotel, contractor, and travel business predicted in bankrupt condition. Then, the cooperative business and education institutions are in the gray area. Finally, advertising, trading, communication services, and health clinic company are in non-bankrupt condition. The company is said to be bankrupt if the company experiences mild difficulties (such as liquidity problems) and more severe difficulties, namely solvency, debt is greater than assets [12]. *Financial distress* is a condition that shows the decline in the company's financial condition that has not yet occurred in bankruptcy or liquidation. So *financial distress* or financial difficulties in a company can also cause bankruptcy and is an early stage for the company towards bankruptcy. A company is considered to experience bankruptcy or financial failure when the rate of return obtained by the company is less than the total costs that must be incurred in the long run. The company continues to face financial difficulties because the costs incurred are greater than revenues, threatening the company's going concern in the long term. The accumulation of difficulties in managing finances in the long term will result in a smaller asset value compared to the total liabilities. Furthermore, the *process risk response* will carry out further audit procedures that are assessed and reduce the risk of material misstatement in the financial statements to the lowest level. In assessing going-concern, one must have the *judgment* that can see further than just numbers according to accounting (*historical*).

[10] Indonesian Institute of Certified Public Accountants stated that not all companies whose going concern accounting is doubtful according to accounting could not survive. The accounting principles used the historical *cost principle* and partially used market value (which is very subjective). Companies predicted to experience bankruptcy can prepare *cash flow* for the short term with various scenarios and various assumptions that focus more on *cash flow* than *profitability*. This is also in line with research [14] that uses *cash flow* to predict future operating cash flows. The cash flow statement *reflects* a comprehensive picture of cash receipts and disbursements from operating, investing, and financing activities. Cash flow is an essential part of a company that wants to operate continuously; without cash flow, the company's survival will be hampered. The cash flow statement is helpful internally to the company's management and externally to investors, government, and society. For internal

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companies, by analyzing cash flow statements, management will determine whether the policies implemented are going well in obtaining and using the cash in a certain period. On the one hand, the external parties, the information in this cash flow statement will help investors, creditors, and other parties in assessing various aspects of the company's financial position. The cash flow statement analysis is to find out whether the company's financial condition or financial performance is progressing or not. This analysis can provide a more detailed picture for the public of a company's financial performance for decision making.

Projections *Cash flow* will plan related to the company's cash flow, cash inflows, and outflows. A financial projection is a financial plan or budget to estimate the number of costs that may arise and the projected income that will be generated for a certain period. The company describes the preparation of cash flow projections as a cash budget. [7] states that the cash budget is prepared based on cash inflows (cash receipts) and cash outflows (cash disbursements). Cash flow projections are prepared using three activity approaches: operating, investing, and financing. Cash receipts at the company are sourced from the results of 3 groups of activities, namely:

- Operational Activities, the income generated from these operating activities is in the form of sales of products/services in cash, collection of receivables from credit sales, receipts of interest and dividends, sales of assets, and sales of securities.
- Financing Activities are revenue sourced from funding activities, namely from issuing shares, issuing bonds, and issuing promissory notes or notes.
- Investment Activities, income originating from investment activities, namely from the sale of fixed or non-current assets, re-acceptance of loans, and sales of securities.

Sources of cash disbursements are also grouped into three company activities, namely:

- In this operating activity, cash is used to purchase raw materials for products/services, payment of labor costs, payment of overhead costs, payment of administrative costs, payment of marketing costs, and purchase securities.
- Financing Activities, cash in this funding activity is used to purchase shares, pay dividends, pay principal debts, and pay off bonds/promissory notes/money notes.
- Investment Activities in this investment activity, cash is used to purchase non-current assets, purchase securities, and provide loans to debtors.

I. RESEARCH METHODS

A. Samples

The samples in this study are three companies predicted to experience bankruptcy during the covid-19 pandemic, namely companies with hospitality services, contractors, and tour & travel businesses.

B. Data Analysis

Techniques Data analysis techniques in this study were carried out with the interactive analysis model proposed by [6]. Testing the validity and reliability of the data using triangulation (*cross check*) on the data. The interactive analysis models include:

1) Data collection. At this stage, the data or facts are used for the research.

2) Data reduction. Data reduction is a form of analysis that sharpens, categorizes, directs, discards unnecessary, and organizes data so that conclusions can be drawn.

3) Data display. This data presentation stage requires the data to be selected or specified at the focus of the research problem.

4) Conclusion/verification

II. RESULTS AND DISCUSSION

Cash flow projections are carried out to determine the company's ability to meet its financial obligations to other parties and still earn profits. Make cash flow projections at least one week ahead and then increase to monthly and annual cash flow projections. A well-prepared cash flow projection allows the company to position anticipated cash flows from time to time and estimate financial management, meaning that cash inflows and outflows must be balanced so that there are no excessive or short cash balances. Cash flow projections help the company anticipate a shortage of funds immediately so that it can be quickly addressed and also help the company see sales trends (forecasting sales in the future). Cash is the most liquid component of working capital; the greater the amount of cash owned by the company, the higher the level of liquidity. However, a large amount of cash or the more liquid the company is because excess cash shows that the cash turnover rate is low and reflects companies with an excess investment in cash. The cash turnover rate greatly determines the company's financial condition. The higher the cash turnover rate, the faster the return of incoming cash to the company; thus, cash will be quickly reused to finance the company's operational activities.

[19] A cash budget predicts the company's planned cash inflows and outflows within a certain period, explaining the sources of cash receipts and disbursements. Preparing a cash budget is an effective way to plan and control cash receipts and disbursements in a company, estimate cash requirements, and use excess cash effectively. Good and structured cash management will make the company's cash optimal. Cash optimization must be achieved by the company so that in carrying out its operational activities, it is not disturbed by a cash shortage or the occurrence of risks due to excess cash stored so that cash must be provided in a certain amount with specified limits. Covid-19 has had a negative impact on the company's performance [11]. The COVID-19 pandemic has dramatically impacted a country's economy; some companies have difficulty continuing their operations. The study's results [13] stated that many companies experienced an economic crisis during the covid-19 pandemic. The company experienced

cash flow problems due to sales that continued to decline and a decrease in market capitalization value [12].

During the COVID-19 pandemic, most countries' economies were disrupted due to a decline in productivity in almost all industrial sectors. The decline in productivity occurred due to the implementation of policies that required the community, including workers, to stay at home and carry out physical distancing to break the chain of transmission. A long and unfinished pandemic period, it has caused many companies to have to terminate their employment or even close due to bankruptcy. The company went bankrupt because it did not have the sufficient cash flow to carry out its operational activities. Companies can survive during this COVID-19 pandemic through sound financial management so businesses can be more efficient. Corporate finance is essential to a company because it involves its operational activities for profit. One of the most important parts is the profit or loss statement. Cash flow is a breakdown showing a company's funds flow during a period presented as a report. The main cash flow of a company comes from activities related to operating activities [3]. Good cash flow management will positively impact the company because of its effectiveness and efficiency. It will be maximized if good management is carried out, especially in times of crisis. Sound financial management will make the company able to survive the crisis. The company's cash flow is one of the benchmarks for assessing its competitive ability because it will reflect how efficient and effective the company is in managing its finances. In addition to being the basis for evaluating the company's cash flow, it also has other benefits. Firstly, it can provide information to evaluate changes in the company's net assets and financial structure (including liquidity and solvency). Secondly, It can influence the amount and timing of cash flows to adapt to changing circumstances and opportunities. Cash flow information helps assess an enterprise's ability to generate cash and cash equivalents. It enables users to develop models for assessing and comparing the present value of future cash flows of various enterprises. Many companies from various industries were negatively affected by the COVID-19 pandemic crisis, which could cause a company to go bankrupt due to a financial crisis. Research results [1] stated that the type of hotel, contractor, tour & travel

business was predicted to be in a state of bankruptcy, so that that going concern will be disrupted.

The financial controller of the hotel company stated that: “During Covid 19, this hotel is still operational and only employs a few employees. Preparing cashflow projections during the COVID-19 pandemic focusing only on hotel operational activities, excluding investment and funding activities; the projections are short-term and will be reviewed monthly. The company does not prepare cash inflows from sales due to the pandemic conditions, which are full of uncertainty. Cash outflows are minimized, and the company makes efficiency by considering the number of expenses categorized as fixed and variable expenses. To cover the projected cash flow deficit, the company obtains funding from third parties and owners".

The head of the accounting section for the type of contractor company said: "The company during the covid 19 pandemic only compiled cashflow from the expenditure side, especially related to routine expenses. The company does not plan for cash receipts, especially sales, because it predicts that it will not get a project during the covid 19 pandemic. This projection is made within a short period and will be evaluated monthly. To overcome the cash deficit, the company gets funding from the owner, whose allocation uses priority scale considerations.

The tour & travel service owner said: "since the government closed flight access to Bali, this policy will automatically affect tourist visits to Bali, and the company has also decided to close the company operations and will reopen as the situation improves. Since the opening of the flight, the company has begun to compile cash flow projections, but it is limited to cash outflows so that the owner can predict the cash needed to cover the cash deficit. Projections will be made every month taking into account short-term conditions”.

The hotel, contractor, and tour & travel business sectors are categorized as experiencing bankruptcy in preparing cash flow projections to focus on short-term planning and only arrange cash flow in operating activities. The approach of cash inflows and outflows refers to the company's operations. The analysis of cash flow projections on the going concern of companies categorized as experiencing bankruptcy with an interactive analysis model can be presented in table I below.

TABLE I. ANALYSIS OF CASH FLOW PROJECTIONS FOR COMPANIES THAT ARE PREDICTED TO EXPERIENCE BANKRUPTCY

Information	Hospitality	Contractors	Tour & Travel
Model Compilation of	Cash in and cash out approach	Cash in and cash out approach	Cash in and cash out approach
Cash Flow Projections	Operating activities	Operating activities	Operating activities
Term	Short	Short	Short
Evaluation	Monthly	Monthly	Monthly
Determinants	External and Internal	External and Internal	External and Internal
Key considerations	Mapping fixed costs and variable cost	Routine expenditure priority scale	Routine expenditure
Strategy	• The hotel remains open to providing services • Conduct monthly cash flow evaluations • Funding from third parties and owners. • Rolling employees	• Contractors remain open • Conducting monthly cash flow evaluations • Funding from owners • Reduced employees and working hours	• Operations closed and then resumed operations in early 2022 • Conducting monthly cash flow evaluations • Funding from owners
Going concern	No commitment to close the company	No commitment to close the company	No commitment to close the company

III. CONCLUSION

Projections *Cash flow* for companies predicted to go bankrupt during the covid-19 pandemic for hotel companies, contractors, and tour & travel uses a cash-in, and cash-out approach limited to operating activities. The timeframe for preparing cash flow projections tends to be short-term and will be evaluated every month.

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