

Analysis of the cash flow statement's usefulness: an empirical study

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ABSTRACT

The basic purpose of this research is to determine the relevance of the cash flow statement (CFS), also known as statement of cash flows, for analysing a company's financial statements. This has been done by means of an empirical study, showing that, in order to undertake a comprehensive analysis of the company's equity, economic and financial situation, it is essential to study and analyse the CFS. An experimental study was carried out with students taking a Business Management and Administration degree at Universitat de Vic as well as students on the Accounting and Finance course at Universitat Autònoma de Barcelona, using data from the retail company Mercadona S.A. The ensuing conclusions allow us to state that the CFS is an indispensable document when it comes to undertaking a comprehensive analysis of the company's financial statements, given that it provides very useful information concerning the company's short-term financial situation and its investment and financing activity.

KEYWORDS

Cash flow statement, usefulness, short-term financial analysis, retail company.

1. Introduction

Financial statement analysis is a discipline that, applies specific techniques and tools to financial statements in an attempt to explore and to determine which causes have led an organisation to its present situation. By applying specific techniques, it also tries to make forecasts with the least possible risk with the ultimate aim of providing useful information that will help managers to take the right decisions that will guarantee the organisation's equilibrium in the future. Financial statement analyses are based on external information, which whenever possible should be supplemented by data provided by managerial accounting. The Annual Statements (AS) constitute the backbone of this external financial information, the minimum information that is required in order to carry out this type of analysis. Over the years Spain has had to adapt its accounting regulations in order to bring them in line with international standards and this has brought about a very important change that culminated in the publication of the Spanish General Accounting Plan in November 2007 (PGC07), which presented us with different annual accounts to the previous Plan, consisting of five documents: the Balance Sheet, the Profit and Loss Account, the Yearly Report, the Statement of Changes in Net Worth (SCNW) and the Cash Flow Statement (CFS). Although the former three documents were already featured in the Spanish General Accounting Plan of 1990 (PGC90), they have undergone very significant changes in the new plan. The new documents that were incorporated in the new accounting plan are: the Statement of Changes in Net Worth and the Cash Flow Statement.

The basic aim of this research was to determine the relevance of the CFS for analysing the accounts by means of an empirical study, in order to demonstrate that in order to carry out a comprehensive analysis of a company's equity, economic and financial situation we need to study and analyse the CFS. An experimental study was carried out with students taking their Business Management and Administration degree (ADE) at Universitat de Vic (UVIC) and Accounting and Finance degree (CIF) students at Universitat Autònoma de Barcelona (UAB), using the data of a retail company, and more specifically from the company Mercadona, S.A. corresponding to the financial years 2008, 2009 and 2010.

The research we carried out has enabled us to conclude that the CFS is an essential document for analysing the accounting statements and that its study supplements the information obtained from the other statements that make up a company's annual accounts. Furthermore, we also found that the economic activity is a relevant factor when studying the CFS and hence that in the case of companies that have "cash terms" for the

collection of their invoices (a cash collection period), it is essential to study the CFS in order to find out what the company's short term financial situation really is, as well as certain aspects connected to its investment and financing activities. The findings of the experimental study showed that the students from the control subgroup (subgroup that did not have the CFS) were not able to determine what the company's short term financial situation really was, whereas the students in the experimental subgroup which had the balance sheet, the profit and loss statement and the CFS were able to do so.

The findings of this research study aim to contribute to the more frequent use of this document by the different users of accounting and financial information in taking economic decisions. There has been a lack of tradition in Spain until now in drawing up these kinds of documents and in using the information contained in the SSAF (Statement of Sources and Application of Funds) for economic decision making. This was demonstrated by the study carried out by Ansón et al (1997) using a series of questionnaires filled in by financial institutions in the Autonomous Community of Aragon, as well as by the empirical study carried out by Martínez (1993), on a sample of auditors-chartered accountants. Consequently there is a real need to demonstrate the relevance of the information obtained from studying and analysing the CFS, with the aim of improving and arguing in favour of using the CFS for decision making. The different users of financial information should and need to become aware of the importance of using the CFS in order to find out the real state of a company's affairs and more specifically, to find out aspects linked to the company's short term financial situation, in order to know whether the company is in an expansion or growth phase so as to have information concerning the changes in its financial policy, and to find out aspects related to the company's dividends policy.

2. Literature review

The use of Statements of Sources and Application of Funds (SSAF) by different types of users has prompted a series of studies related to the information contained in these documents. Some of these studies focus on looking into the different properties of measurements based on accrual as opposed to measurements based on cash flow criteria, basically in order to make predictions concerning future cash flows and the company's insolvency.

Among the studies that research the preference for a particular type of variable in predicting future cash flows, it is worth highlighting the study by Bowen et al (1986), that aimed to detect which measure of cash flow of funds better predicts future cash flows within a one and two-year timeframe. They came to the conclusion, though not a definitive one, that accrual basis parameters (ordinary profit or loss adjusted by depreciations and auto-financing of operations) are better predictors than the rest. Greenberg et al (1986) compared the predictive capacity of the operating cash flow with that of ordinary income to forecast future operating cash flows and they showed that ordinary income is a better predictor than cash flow. Gaharan (1988) measured the capacity to predict future operating cash flows of three flow variables: operating working capital, monetary working capital derived from operations and operating cash flows, considering only a deferral period. The findings showed that the variable closest to profit had the greatest predictive capacity. Arnold et al (1991), among their findings, highlighted the fact that operating working capital seems to be a better predictor of operating cash flow than cash flow itself for a one to two-year time period. Pina (1992) studied whether the statistical properties of the two types of information, using cash basis or accrual basis accounting, were the same or not. He came to the conclusion that the properties of cash basis measures were different to those obtained using the accrual method and even though one cannot affirm that one method is superior to the other, the accrual accounting measures proved to have a greater predictive capacity than future cash flows. Gabas and Apellaniz (1994) concluded that the variable that best accounts for future cash flows is operating working capital. Giner and Sancho (1996) studied the utility of different parameters related to fund flows (working capital, monetary working capital and liquid assets) and confirmed that operating working capital had a greater predictive capacity, which seems to reaffirm the greater utility of the accrual method above that of cash basis accounting.

From the studies that chose to look into prediction of business insolvency it is worth highlighting Beaver's (1966) groundbreaking study which draws up a univariate model and which found that working capital ratio does not provide us with decisive information and that what's more, it is not the best indicator of solvency neither in the short term nor in the long term. He worked using a series of variables such as: generated assets/claimable liabilities; net profit or loss/ total assets; claimable liabilities + preferred stocks / total assets; working capital/ total assets; and working assets/ working liabilities. He found the best ratio to be the cash flow/total liabilities, and he stated that it was able to predict a company's bankruptcy with 79% precision. He reached the conclusion, as Rodriguez-Vilariño (1994) pointed out, that mixed ratios (including a flow variable and a fund variable) are the ones that best predict corporate insolvency and that statistical variables provide less information than dynamic variables. Altman (1968) also carried out a study of 33 companies that had gone bankrupt which focused on prediction of company insolvency. Deakin (1972), from a multivariate approach (the combination of different ratios), selected Beaver's fourteen best ratios and subjected them to a multiple discriminant analysis. The results confirmed Beaver's own findings concerning the predictive ability of cash flow/total liabilities, both alone and in combination with other ratios. Gombola and Ketz (1983); Kochanek and Norgaard (1988); Largay and Stickey (1980) presented companies with positive net profits, positive working capital, positive operating current assets, but with highly fluctuating and clearly insufficient operating current cash flows. This went on for various consecutive years before these businesses went bankrupt. Casey and Bartzack (1984); Gentry et al (1985), in their studies analysed firm bankruptcy predictive ability. Viscione (1985) undertook an analysis of corporate bankruptcy using four ratios: liquidity, profitability, debt and turnover. Percy and Stokes (1992) analysed four variables: profit, profit plus depreciation, operating working capital and operating cash flow; there were fewer prediction errors with profit plus depreciation and operating working capital than with the other two variables; even so, when the sample was segmented these results were not repeated.

Among the studies that focused on the degree of use of these documents it is worth mentioning the empirical study by Martinez (1993) which administered a questionnaire to auditors and chartered accountants on the Statement of Changes in Financial Position. They reached the conclusion that it was a document that is complicated to draw up, difficult to interpret and used very little by most companies. Gomez Juan (1996) undertook a study of the research carried out in Spain on Fund flow statements from the

period 1980-1995, and concluded that the studies undertaken during that period were more of a descriptive than an empirical nature. Rojo Ramírez (1997) carried out a study of the different guidelines issued for the CFS in various countries of the European Union. He reached the conclusion that differences exist in the definition of cash and equivalents as well as in the format; that there is a lack of homogeneity in the composition of the different fund flows as well as in the way they are calculated; and that there was consensus on including the CFS as an integral part of the AS. Ruiz Lamas et al (2006) presented a proposal on how to develop and apply in practice a method that analyses the degree of coherence of the cash flows structure classified by activity, into operating cash flow, investment and financing, with what would be a normal structure depending on the stage in the business life cycle the company finds itself in. Villacorta (2006) carried out a study of the CFS's presented by companies that drew up their AS in the year 2005 according to the IFRS and he came to the conclusion that there were differences in the terminology and that the most widely used method was the indirect method. Rojo Ramírez (2008) put forward a proposal for studying a company based on the CFS and he put forward changes in the order of certain items. Vila Bigliere (2008) carried out a study of firm bankruptcy predictive ability using a three dimensional graphic representation. Zubiarre et al (2009) studied the indirect method used in the PGC07 (General Accounting Standards) to calculate the OCF (operating cash flow), and highlighted the main difficulties that one comes across in drawing it up. He carried out a comparative study of the companies listed on the IBEX 35 during the period 2005-2007 and reached the conclusion that there were differences in the choice of initial earnings, in the presentation of changes in working capital (broken down or not), and in the separate presentation of taxes and in the collection of interest and dividends. Rodríguez-Vilariño (2009) studied the consolidated CFS of the companies Metrovacesa and Inmobiliaria Colonial, during the period 1998-2008 in order to demonstrate that corporate solvency level indicators are better than traditional ratios. They concluded that the data on cash flows was more significant for solvency than the data on generated fund flows and that it is very useful to work jointly with earnings before interest and tax, and OCF because both these dimensions have to do with the company's activity. Reig and Zorio (2012), based on a sample of companies listed on Dow Jones 30, the EuroStoxx 50 and the Ibex 35, studied their preferences in using the direct or the indirect method and their findings showed an almost absolute preference for the indirect method. They undertook an analysis of CFS that is being analysed by the FASB and the IASB in order to establish a common standard between

the USGAAP and the IFRS. They concluded that globalisation demands comparability between the American standard (FAS95), the international standard (IAS7) and the Spanish standard (PGC07). The joint IASB and FASB project recommends using the direct method because it predicts future flows better.

Based on the studies developed in the US by Maness and Henderson (1989) and in Spain by Ruiz Lamas (1997) and Ruiz Lamas et al. (2006), a relationship can be determined between the life cycle of a business and the sign and amount of the cash flows corresponding to the different activities in the cash flow statement. Starting from this relationship, the following stages can be defined: Introduction, growth, maturity and decline. Additionally, the default of two large corporations in the first years of the XX century (W.T. Grant representing large retailers in the US and Laker Airways a UK airline) led to the conclusion that the absence of liquidity in the ordinary activity during, at least, 12 years before default, was the main cause of this situation.

The consequence of these facts turned to be the strong support for information regarding cash flows by authors like Rojo Ramirez (1993), Rodriguez & Gonzalez (1997), Vallejo(2005), Carmona Ibañez (2007), Rodriguez –Vilariño (2009). Following Carmona Ibañez (2007), analysing cash transactions is essential to assess the capacity to generate resources that guarantee the survival of the company.

Regarding the methods, the study by Farshadfar, S. & Monem, R. (2013) shows that the application of the direct method facilitates the prediction of future cash flows and the comparison of operating cash flows between companies. And regarding the different documents, Kwok, H. (2002) evidence that the financial statements most currently used for the liquidity analysis are the Balance Sheet and the Income Statement. However, later studies like Barth et al (2001), Cheng & Hollie (2008), Ortpurt & Zang (2009) start showing that the prediction of operating cash flows is mainly based on the direct method. Ruiz Lamas (2012) in his study dedicated to the usefulness of the cash flow statement for UK companies also supports this idea.

3. Methodology

The basic objective of this experimental study is to demonstrate and highlight the relevance of the Cash Flow Statement as part of the analysis of accounting statements, under the premise that the analysis and study of this accounting statement significantly improves the information one can obtain concerning the company. The secondary objectives are to demonstrate this document's relevance for:

- Short term financial analysis, placing emphasis on companies that have a cash collection period. More specifically, this research aims to demonstrate the CFS's relevance for companies in the retail sector that have a cash collection period, and whose negative working capital and short term solvency ratio are below one unit.
- To demonstrate and outline the value of the information that this statement provides on each of the different activities that the company carries out and on the interrelationship between these activities, and to identify by looking at the cash flows of the different activities, the life cycle of a business as a CFS analysis method.

We carried out an experimental study following the methodology employed in other research studies such as by Gandia and Montagud (2011)¹ and Mainess and Daniel (2000)², with Business Management and Administration (ADE) and Accounting and Finance (CIF) students from two Catalan Universities: Universitat de Vic (UVIC) and Universitat Autònoma de Barcelona (UAB), Sabadell Campus. A pilot study was carried out in these two universities.

In order to accomplish the study's objectives we drew up two null hypotheses which this research is intended to demonstrate:

- H1: There are no significant differences between the control subgroup's results and the experimental subgroup's results in the experimental study carried out with students from different universities.

¹ His empirical study aims to determine whether the adoption of innovative teaching methods improves the students' academic performance.

² The objective of the study is to determine which is the most suitable format for presenting the Changes in net assets statement.

- H2: Studying the CFS does not provide one with valuable individualised information on the three activities the company carries out (operations, investment and financing) or on the degree of interrelation among them.

The students who took part in this experimental study met certain requirements:

- 1) They were all familiar with the basic features of financial accounting and the annual accounts in accordance with current Spanish accounting principles.
- 2) They were familiar with the techniques for analysing accounting statements and knew how to apply them to the company's annual accounts.

By fulfilling these requirements they were able to interpret the three documents that are presented in this study: The Balance sheet, the Profit and Loss account and the Cash Flow Statement. For the purpose of this study each group of students was divided into two subgroups: subgroup A (control subgroup) and subgroup B (experimental subgroup). Each student was randomly assigned to a subgroup. Once each group had been divided into two subgroups the students were provided with the data on the company under analysis. This study used data from the company Mercadona, S.A. corresponding to the three last financial years for which information was available (2010, 2009 and 2008), which was taken from the SABI database (Sistema de Anàlisis de Balances Ibéricos). Based on the information they received, the students filled in the same questionnaire³, which featured a total of 12 questions. The control subgroup (Subgroup A)/(CS) was only given the Balance sheet and the Profit and Loss Account whereas the experimental subgroup (Subgroup B)/(ES) was given the Balance sheet, Profit and Loss Account and the Cash Flow Statement.

The statistical methodology employed in this experimental study was comprised of the four following points:

- 1) Frequency and percentage charts were obtained of the resulting qualitative variables. We found that the distribution of the replies was similar for all three years and consequently we decided to work with the three years together, considering the mode (most repeated value) of these three years. The most relevant values from the database description were:

³ The questionnaire form is attached in the Annex

- a. A total of 49 students took part in the experimental study; 20 students from UVIC and 29 students from UAB, whereby the students from UVIC accounted for 40.8% of the total and those from UAB, 59.2%.
- b. The students who took part in the experimental study were on two courses related to business. The UVIC students were taking the BMA course (40.8%) and the UAB students were on the Accounting and Finance course (59.2%).
- c. As regards the gender of the students in the experimental study, 40 % were men and the remaining 60% were women. The gender of the UAB students was not taken into account here given that they did not reply to the questionnaire individually but in groups, so consequently we were not able to state their gender.
- d. 51% of the students taking part belonged to the control subgroup which only had two documents from the company under study, and the remaining 49% belonged to the experimental subgroup, which had all the information.

2) We found significant differences in the responses between the two subgroups, the control subgroup (CS) and the experimental subgroup (ES). We did so by applying contingency tables and the Chi-square test to check whether there was a relationship between the group variable and the corresponding question, considering a reliability of 95% (or a level of significance of 0.05).

3) We checked to see whether there were differences in the responses of the control subgroup (CS) and the experimental subgroup (ES) derived from their studying a different course (BMA/AF) using contingency tables and the Chi-square tests.

We used contingency tables and the Chi-square test to determine whether there was a relation between specific questions in the control subgroup (CS) and in the experimental subgroup (ES).

4. Results

The findings we obtained can be summed up in the three sections below:

4.1. Findings obtained from looking at whether there were any significant differences between the responses of the two subgroups, the control subgroup (cs) and the experimental subgroup (es)

From the findings we obtained we can reject the two hypotheses we formulated and replace them with the following alternative hypotheses:

- Reject null hypothesis No.1 (H1) and consequently accept the alternative hypothesis that there are differences between the responses of the control subgroup and the experimental subgroup.
- Reject null hypothesis No.2 (H2) and consequently accept the alternative hypothesis that the CFS provides very valuable individualised information on the company's activities and concerning the degree of interrelatedness between them.

In 4 questions out of a total of 12 questions in the questionnaire administered to the students a relation was found between the fact of belonging to one subgroup or the other and the chosen response whereas in the remaining eight questions no relation was found between the respondent's subgroup and the chosen response. The questions where a relation was found between the group and the response were questions 3, 5, 11 and 12, (they refer to the CFS) whereas the questions where no relation was found were questions 1, 2, 4, 6, 7, 8, 9 and 10 (they do not refer to the CFS). These results were obtained from the values of the Chi-square test (Table 1.) where we can see that in questions 3, 5, 11 and 12 the p-value is below 0.05 which means that there is a relation between the fact of belonging to one group or the other and their response. In the remaining questions however, given that the p-value is higher than 0.05 there is no relation between the responses and the fact of belonging to a particular group. These findings show that the experimental group, because it could consult the CFS of the company under study, was able to get a better picture of the company's real short term financial situation.

Questions	No. 1	No. 2	No. 3	No. 4	No. 5	No. 6
	Asymptotic significance (bilateral)					
Pearson's Chi-square	.302	.302	.000	.355	.000	.141
Continuity adjusted chi-square ^b	.984	.984				.452
Likelihood ratio	.229	.229	.000	.286	.000	.086
Fisher's exact test					.205	
Linear correlation line	.307	.307	.672	.154		.145
No. of valid cases						

Questions	No. 7	No. 8	No. 10	No. 11	No. 12
	Asymptotic significance (bilateral)				
Pearson's Chi-square	.110	.240	.322	.000	.000
Continuity Adjusted chi-square ^b		.420	1.000		.000
Likelihood ratio	.051	.237	.243	.000	
Fisher's exact test				.091	
Linear correlation line	.099	.245	.327		.228
No. of valid cases					

Table 1. Chi-square test results

We were unable to apply the chi-square test to question No. 9 because there was only one category.

The significant difference obtained in question No. 3 enables us to affirm that in order to determine with exactness the short term financial situation of a retail company with a cash collection period, and in order to find out whether it has had problems in meeting its short term payments derived from its operating activities, it is essential to study the CSF. The value of the working capital funds of the company under study was negative and the short term solvency ratio figure was less than one unit, and this could indicate an unstable financial situation, when in fact this is not the case.

The significant difference obtained in question No. 5 enables us to affirm that it is very useful to consult the CFS, and more specifically the information on its investing activity in order to determine whether a company is in its growth phase and is investing noncurrent or fixed assets. In the case of the company under study, it presented negative cash flows from investing (CFI) for the three years which means that the payments derived from this activity are higher than the collections and that consequently we are dealing with a company that is growing.

The significant difference found in question No.11, enables us to affirm that the company under study, although it has invested in recent years in noncurrent assets, has payments

from financing activities that are higher than collections, which to put it another way means it is reimbursing a part of the external financing obtained in previous financial years. This information was extracted from the CFS and more specifically from the financing activity section.

Finally, given the significant difference found in question No. 12 we can safely state that without the CFS it is hard to find out aspects linked to shareholders' compensation (payment of dividends).

On the other hand the joint analysis of the replies to questions 3, 5 and 11 enables us to identify the business life phase that the company under study is in, which in this case is the maturity phase, given that it shows positive Cash flows from operating activities (CFOA), negative CFIA and negative Cash flows from financing activities (CFFA). The positive CFOA value means that the company was able to pay all its short term debts derived from its regular activity, obtaining a surplus which it then allocated to finance company growth (negative cash flows from investment activities) and to reimburse part of the external financing received in previous financial years. In this way it demonstrates the CFS's value in that it provides separate individualised information for each activity, information on the degree of interrelatedness between them as well as information for identifying the phase in the business life cycle the company is in.

4.2. Results obtained from checking to see whether there were differences within the control subgroup as well as within the experimental subgroup due to the fact that the students were studying one university course or the other

As regards the results obtained in the control subgroup we found a relationship between the group the students belonged to and their answers to questions 3, 5 and 11 and not with the remaining questions, as can be seen from the results of the Chi-square test (Table No.2). The questions where a relationship was found were precisely those concerning the document that is the subject of the study, the CFS. The lack of information the students from the control subgroup had, given that they were not provided with all three company documents resulted in significant differences depending on the subgroup the students belonged to and more specifically in the majority of questions related to the CFS (3, 5 and 11) whereas no differences were found in their responses to the remaining questions.

It seems that the lack of information plus their training received in the accounting areas throughout their university course may account for the relationship between the group and the response and hence lead to differences between the responses of the two control subgroups, the BMA degree subgroup and the other degree subgroup.

	No. 3	No. 5	No. 11
	Asymptotic significance (bilateral)	Asymptotic significance (bilateral)	Asymptotic significance (bilateral)
Pearson's Chi-square	.003	.000	.001
Likelihood ratio	.002	.000	.000
Linear correlation line	.001	.000	.001
No. of valid cases			

Table 2. Chi-square test, control subgroup

The results obtained in the experimental subgroup from the Chi-square test (Table No. 3) gave a value above 0.05 in all the questions. This enables us to affirm that since this subgroup had all three documents, there was no relationship between the course each student was studying and their particular responses. Their responses to the twelve questions they were administered in the questionnaire had no relationship with belonging to a specific course. In the experimental subgroup, given that all the students had all three company documents, they all gave very similar answers and therefore no significant differences were found related to the fact that they were studying a specific university course.

	No. 1	No. 2	No.3	No.4	No.5	No.6	No.7	No.8	No.9	No.10	No.11	No.12
Asymptotic significance (bilateral)												
Pearson's chi-square	.388	.388	.118	.388	.118	.803	.212	.151	-	-	0.388	-

Table 3. Chi-square test, experimental subgroup

4.3. Results obtained from determining whether there was a relationship between the responses to specific questions within the control subgroup and within the experimental subgroup

The results obtained from the contingency table and from the Chi-square test to find out whether there was a relationship between the responses to specific questions within the control group and within the experimental subgroup were as follows:

- Within the control subgroup a relationship was found concerning those questions in which the reply is linked to the document under study, the CFS whereas no relationship was found in the questions in which the two responses had nothing to do with the CFS. Hence a relationship was found between the replies to questions 3 and 5 (Table No. 4); between No.3 and No. 11 (Table No. 5); between No.3 and No. 12 (Table No. 6) and between No. 5 and No. 11 (Table No. 7)

	Asymptotic significance (bilateral)
Pearson's Chi-square	.034
Likelihood ratio	.010
Linear correlation line	.003
No. of valid cases	

Table 4. Chi-square test, relation between questions 3 and 5 and control group students' studies

	Value	gl	Asymptotic significance (bilateral)
Pearson's Chi-square	16.071 ^a	4	.003
Likelihood ratio	20.376	4	.000
Linear correlation line	10.606	1	.001
No. of valid cases	25		

Table 5. Chi-square test, relation between questions 3 and 11 and CS students' studies

	Value	Gl	Asymptotic significance (bilateral)
Pearson's Chi-square	10.242 ^a	4	.037
Likelihood ratio	13.685	4	.008
Linear correlation line	7.604	1	.006
No. of valid cases	25		

Table 6. Chi-square test, relation between questions 3 and 12 and CS students' studies

	Value	gl	Asymptotic significance (bilateral)
Pearson's Chi-square	16.335 ^a	4	.003
Likelihood ratio	18.108	4	.001
Linear correlation line	6.980	1	.008
No. of valid cases	25		

Table 7. Chi-square test, relation between questions 5 and 11 and CS students' studies

The lack of information that the control subgroup students have in order to answer the questionnaire resulted in there being a relation between their responses to certain questions and more specifically between the questions that had to do with the CFS.

Within the experimental subgroup the results of the Chi-square tests and the p-value showed that there was no relation between the questions in this subgroup, given that in all the cases the value of the p-value was above 0.05. In other words, the ES students, because they had all three company documents in their possession, answered with more certainty and hence no relations were detected between their responses to certain questions.

5. Conclusions

The 2007 Spanish General Accounting Plan (PGC07) as of the financial year commencing January first 2008 incorporated two new documents as an integral part of the annual accounts: the Statement of Changes in Equity and the Statement and the Cash flow Statement. This study's main objective was to determine the relevance of the Cash Flow Statement within the financial statements and more specifically to determine the importance of the CFS for studying a company's short term financial situation and its evolution and to demonstrate the benefits of the information this document provides separately about the company's different activities as well as the degree of interrelatedness among them.

The findings of our research enable us to reach the following conclusions:

The Cash flow statement study and analysis is very relevant in order to carry out a complete analysis of the company's financial statements where the rest of the financial statements also play a key role

The CFS is the sole document of the five documents that comprise the annual accounts, which provides us with information concerning variations in cash and other liquid cash equivalents classified into three activities: operations, investment and financing.

In order to really find out the company's short term financial situation it is very useful to have the figures for the Cash Flows from Operating Activities (CFOA), which needs to be supplemented with the figures from the working capital and the short solvency ratio.

From studying the CFS one is able to obtain separate information about the company's different activities, information about the interrelationship between them and establish a relation between the business's life cycle and the sum of the cash flows from the different activities.

Consequently one can affirm that the CFS is a very relevant document that provides added value to a complete analysis of the financial statements of a retail company with cash collection. The information provided by this accounting statement is very useful for finding out the company's real short term financial situation and complement the traditional ratios of liquidity, as well as certain aspects related to the company's investment activity and its financing. The CSF furnishes us with very valuable information for each of the company's activities (operations, investment and financing) on a separate basis and also throws light on the degree of interrelatedness between them, which enables us to know at any given time what stage in its business life cycle the company is in. The CFS provides us with very objective information (in comparison to

other financial statements like the Income Statement) that is easy to understand, especially for users of accounting information who are not very familiar with accounting. The CFS adopted by the current accounting principles (PGC07), is a document that has a great deal of analytical potential which can significantly contribute to improving the analysis of a company's financial statements and the decision making process.

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ANNEX

QUESTIONNAIRE MODEL

(A/B subgroup)

Using the data on **MERCADONA, S.A.** for financial years **2010, 2009 and 2008**, please reply to the questionnaire below:

UNIVERSITY
COURSE..... Date
Gender : Male / Female

-Mark the correct answer with a cross

1) Its working capital is:

	2010	2009	2008
a) Positive			
b) Negative			
c) Null			

2) Its short term solvency ratio is:

	2010	2009	2008
a) Above 1			
b) Equal to 1			
c) Below 1			

3) Was the company able to meet all the payments derived from its regular operations with the collections from this activity?

	2010	2009	2008
a) Yes			
b) No			
c) Don't Know/Don't Answer			

4) The solvency ratio or total guarantee is :

	2010	2009	2008
a) Above 1			
b) Equal to 1			
c) Below 1			

5) Is the company in an expanding or growth phase and hence making new investments in non-current assets?

	2010	2009	2008
a) Yes			
b) No			
c) Don't Know/Don't Answer			

6) The company's debt level is:

	2010	2009	2008
a) High			
b) Normal - acceptable			
c) Low			

7) The quality of the company's debt is:

	2010	2009	2008
a) Good			
b) Normal			
c) Poor			

8) The company's use of debt is:

	2010	2009	2008
a) Favourable			
b) Unfavourable			
c) Indifferent			

9) The company's net financial profitability is:

	2010	2009	2008
a) Positive			
b) Negative			

10) The company's gross economic profitability is :

	2010	2009	2008
a) Positive			
b) Negative			

11) Has its financial activity led to more payments than collections and consequently to a negative flow for this activity?

	2010	2009	2008
a) Yes			
b) No			
c) Don't Know/Don't Answer			

12) Have dividends been paid out to shareholders?

	2010	2009	2008
a) Yes			
b) No			
c) Don't Know/Don't Answer			

