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# 1 Financial Reporting Destined to External Third Parties as a Tool 2 for Analyzing Credit Worthiness: Usefulness and Limitations. 3 The Italian Case

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## 7 **Abstract**

8 Financial reporting to external third parties is the primary document based on which, at least  
9 in theory, a company's creditworthiness should be assessed. Income, capital, financial and  
10 sustainability performance should be understood through a thorough analysis of the financial  
11 reporting and sustainability report data. Here, we will focus exclusively on Financial  
12 reporting. As we will see, Financial reporting intended for the outside world is characterised  
13 by an information gap that tends to preserve the company's right to information and privacy.

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15 **Index terms**— financial reporting, communication, creditworthiness analysis, static and dynamic  
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17 and Limitations. The Italian Case

## 18 **1 Maria Silvia Avi**

19 Abstract-Financial reporting to external third parties is the primary document based on which, at least in theory,  
20 a company's creditworthiness should be assessed. Income, capital, financial and sustainability performance should  
21 be understood through a thorough analysis of the financial reporting and sustainability report data. Here, we  
22 will focus exclusively on Financial reporting. As we will see, Financial reporting intended for the outside world is  
23 characterised by an information gap that tends to preserve the company's right to information and privacy. The  
24 main objective of Financial Reporting for External Purposes is to ensure that all Financial Reporting prepared by  
25 a nation's companies is consistent in structure and thus comparable. The spread of IAS/IFRS makes it no longer  
26 a national but a supranational objective. The significant unsolvable problem is that such financial statements,  
27 precisely in order to guarantee the privacy of certain information of a strategic nature or the disclosure of which  
28 could be detrimental to company management, are characterised by a lack of information that prevents an indepth  
29 analysis of the situation with a global company. Static analysis employing classic ratios and dynamic analysis  
30 using the determination of cash flows can only be carried out partially. The results are often unsatisfactory  
31 because there is so much missing data to render the analysis almost useless.

32 To this must also be added the circumstance that, if this is true for ordinary financial statements, it is even  
33 more true for the abridged financial statements associated with small and medium-sized enterprises, for micro-or  
34 tiny enterprises comma one cannot even speak of financial statements as an information instrument intended for  
35 the outside world because the eh content of such a document is so limited that third parties cannot understand  
36 anything about the company's condition. Whoever applies for a loan from a bank OA a lender, and therefore, it  
37 is desirable to add to the balance sheet data intended for the outside and regulated by law, other data internal to  
38 the company point. If this does not happen, the lender will be forced to draw deductions from partial, incomplete  
39 and often impossible-to-interpret data. In this case, the answer to the financing will probably be the negative  
40 point we do not intend here, to enter into the problem of the widespread practice worldwide, which is connected  
41 to the constant request for personal skulls by the bank or the lender even in the presence of balance sheets eh  
42 that

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### **3 DISCLOSURE LIMITATIONS RESULTING FROM ACCOUNTING BEHAVIOUR THAT DOES NOT FULLY ADHERE TO CORRECT FINANCIAL STATEMENT POSTULATES**

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45 presents optimal income, financial and patrimonial company positions point collateral or personal guarantees  
46 are generally always requested by the lender, for greater protection of its credit. It can be said that only in very  
47 few cases is financing granted solely and exclusively based on balance sheet data. Despite this, the balance sheet  
48 remains one of the main elements on which decisions are made as to whether or not to accept an application for  
49 a credit line. However, the decision is also strongly influenced by the ability of the borrower of the potential loan  
50 to provide additional collateral of a real or personal nature.

51      Keywords: financial reporting, communication, creditworthiness analysis, static and dynamic analysis,  
52 disclosure limits of the financial statements for external parties.

## **53      2 I.**

54 External Financial Reporting: Potential Disclosure Limits 1 The subject of our interest will be the 'information  
55 potential' of financial reporting regulated by the Italian Civil Code. However, similar considerations to those  
56 illustrated in the following pages also apply to financial statements prepared by IAS/IFRS adopter companies.

57      The information limitations of financial reporting deposited at the company registrar's office can be grouped  
58 into three different categories:

- 59      1. Inherent limitations of financial reporting which, as such, cannot be overcome; 2. Disclosure limitations  
60 arising from the adoption of accounting behaviour that does not adhere to proper financial reporting postulates;  
61 3. Disclosure limitations arising from the specific content of the statutory financial reporting requirements.

62      Inherent limitations of financial reporting that, as such, cannot be overcome

63      In addressing the issue of the so-called 'inherent limitations of financial reporting, it is appropriate to recall  
64 two peculiarities of financial reporting that, although they may be considered potential limitations, are inherent  
65 to financial reporting itself and, consequently, must be interpreted, not as 'shortcomings or limitations of the  
66 financial statements, but rather as elements characterising that document.

67      The two distinctive elements of financial reporting mentioned above can be summarised as follows:

68      1. Since management is characterised by what is commonly called economic unity, financial reporting breaks  
69 down into annual periods, which is, by its nature, indivisible. While the company's total income (i.e. the income  
70 produced from the beginning of the company's life until its liquidation) is an objective value, the profit/loss and  
71 capital determined at the end of each administrative period, due to the presence of estimated quantities (i.e.  
72 approximations to the 'true'), and conjectured values (i.e. subjective representations of the 'true'), identify  
73 aggregates lacking an objective 'absolute truth'. For this reason, concerning financial reporting, instead of  
74 speaking of 'truth', the terms 'reliability' or 'veracity' of accounting values are used. This intrinsic feature  
75 of financial statements, identifying an element inherent in the balance sheet and profit and loss, cannot, however,  
76 be counted among the informational limitations of this document as it identifies 2. Another distinctive element of  
77 financial reporting concerns the type of data recorded therein: the accounting values recorded in the balance sheet  
78 and the profit and loss are actual quantities, although the presence of forecast aspects also characterises them.  
79 This is a direct consequence of the presence, in the balance sheet, of subjective values, the determination of which  
80 depends, not on a mere ascertainment of facts that are now past and concluded, but on an estimation/planning  
81 of future events. Consider, for example, the determination of depreciation. The annual depreciation charged  
82 to the financial year also depends on considerations regarding the future use of the long-term asset. Similar  
83 considerations can be developed concerning quantifying all provisions for future liabilities and charges.

84      Even though the determination of balance sheet and profit and loss accounting values implies the consideration  
85 of future events, there is no doubt that the documents constituting financial reporting for the year are of a  
86 consumptive nature.

87      Although the assessment of creditworthiness cannot disregard the analysis of the company's prospects, the  
88 final aspect of financial reporting does not bring this element within the so-called "disclosure limits of financial  
89 statements". The circumstance that the values recorded in the balance sheet and the profit and loss are data  
90 referring to the closing date of the financial year rather than a limitation represents, therefore, a distinctive trait  
91 of financial reporting that, as such, must be accepted and, consequently, interpreted not as a shortcoming but as  
92 an intrinsic requirement of such a document.

93      Concerning the undoubtedly interest that every user external to the company (shareholders, employees, the  
94 community, scholars, etc.) has in information regarding the company's prospects, it must be emphasised that  
95 Article 2428, paragraph 3 of the Italian Civil Code establishes that, in any case, the management report must  
96 include information on the foreseeable evolution of operations. This specific point will be further discussed in  
97 the following pages.

## **98      3 Disclosure limitations resulting from accounting behaviour 99      that does not fully adhere to correct financial statement 100 postulates**

101      The list of 'limitations' of financial reporting, understood as a tool for assessing creditworthiness, may include  
102 so-called 'information limitations arising from the application of accounting behaviour that does not perfectly  
103 adhere to correct financial statement postulates'.

104 For obvious reasons, we do not intend to refer to the hypothesis that, voluntarily, the accounting data are  
105 distorted by false disclosures of objective values implemented to carry out unlawful balance sheet policies.

106 Regardless of the objectives of manipulating financial statement data, implementing such operations renders  
107 the balance sheet, profit and loss, report of the notes to financial statement report on operations, and documents  
108 devoid of any informative consistency. Of little relevance for our analysis appears the consideration of the  
109 informative consequences on the determination of the company's creditworthiness, deriving, for example, from  
110 the inclusion in the accounts of incorrect objective values as the result of not recording revenues or balance sheet  
111 items, the recording of nonexistent costs; the recording of assets that do not exist in the company; etc. In this  
112 case, however, it seems inappropriate to include such a hypothesis among the "limits" of financial reporting, since  
113 the desire to communicate a company condition that is different from the "real" one by falsifying the accounting  
114 values does not appear to be an informative limitation of the financial statements, but rather a fraudulent practice  
115 that, like any other operation carried out to mislead third parties, renders financial reporting invalid and, in the  
116 cases provided for by Article 2621 of the Italian Civil Code, transcending the civil field, and to all intents and  
117 purposes, falls within the criminal field.

118 While leaving aside the transactions described above, it is appropriate to address an issue that identifies a  
119 widespread practice in companies.

120 Analysing the financial statements of companies and delving into company practice concerning the determination  
121 of financial reporting values that require a subjective valuation intervention, it can be seen that an 'accounting  
122 habit' is widespread, which, if not adequately considered in the interpretation phase of the accounting values,  
123 can lead to erroneous convictions concerning the company's income and financial situation.

124 We intend to refer to the often implemented osmosis between tax data and economically (and therefore civil  
125 law) correct values.

126 As is well known, the balance sheet, the profit and loss, the report of the notes to financial statements and  
127 the financial statement, i.e. the four documents that, in Italy, constitute the financial reporting destined for the  
128 outside world of the company, should only contain civil law correct data, i.e. economically actual accounting  
129 values. Since, by its very nature, the civil code contains only very concise rules, the opinion has been consolidated  
130 over time that the legal articles should be supplemented/completed/interpreted in light of what is illustrated by  
131 the accounting principles.

132 As noted above, our focus is on financial reporting civil law and, consequently, the accounting standards  
133 'supplementing/completing' the legal norm are those issued by the OIC (Organismo Italiano di Contabilità)  
134 even if, in the absence of explicit contradictions with Italian law, there is nothing to prevent the application of  
135 international accounting standards (IAS/IFRS).

136 If the purpose of income values is in determining taxable income, the rules to which reference must be made  
137 are the tax provisions whose primary objective is to limit the taxpayer's discretion in determining taxable income.

138 Therefore, it is possible to identify a precise dividing line between valuation principles applicable to determining  
139 financial reporting data and tax criteria since the two regulations are characterised by profoundly different  
140 objectives.

141 Even though most companies are aware of this, in many entrepreneurial realities of our country, financial  
142 statements marked by a trib-verity, i.e. by a 'truthfulness' influenced by tax assessments, can frequently be  
143 identified. In other words, widespread practice is the 'importation' into the civil sphere of the valuation criteria  
144 identified by the tax legislator. Implementing such accounting behaviour causes what is generally referred to as  
145 'tax interference in financial'.

146 It appears evident how, when such a hypothesis occurs, the external communication implemented through the  
147 financial statements is distorted by the presence, in the profit and loss and balance sheet, of values that have  
148 nothing to do with the economically correct measurement of the events, accounted for.

149 There is no need to elaborate further to understand how, if implemented, tax interference, understood in  
150 the sense described above, can distort the income, financial and patrimonial situation communicated to users  
151 outside the company, first and foremost, the lenders who, based on the financial statements, assess the company's  
152 creditworthiness.

153 In order to provide a complete view of reality, it should note that the application of tax valuation criteria in  
154 the civil sphere occurs, in most cases, in full awareness of the implementation of incorrect accounting behaviour.  
155 However, there are cases where the party responsible for quantifying year-end valuations implements so-called  
156 tax interferences in the belief that it is adopting a legally unobjectionable principle. In the occurrence of such a  
157 circumstance, which is especially prevalent in small businesses, the implementation of a policy of tax pollution  
158 of year-end financial reporting occurs, albeit voluntarily, in terms that we could define as 'unconscious', that is,  
159 in the mistaken belief that this corresponds to the dictate of the law regulating financial reporting.

160 In order to understand the impact on external information resulting from the implementation of so-called fiscal  
161 interference, consider, by way of example, the cost corresponding to the depreciation of a plant.

162 Let us assume that the tax depreciation amounts to 200 while the economically correct value is 70 and that,  
163 for tax reasons, a value of 200 is recognised in the balance sheet. In this case, since the value recognised in general  
164 accounting exceeds the correct amount, it is evident that the costs are overstated in economic reality. The costs  
165 recognised in profit and loss are not actual. The consequences of such incorrect recognition are easy to imagine.

166 It is evident that, in the opposite hypothesis, the repercussions on the decision-making process could be even

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167 more severe. If the economically correct depreciation amounted, for example, to 600 against a tax-deductible  
168 cost of 200, the recognition in financial reporting of the tax value would result in a total cost underestimated  
169 compared to the actual company situation. A circumstance that would cause easily intuitable consequences on  
170 assessing the company's creditworthiness.

171 It should be noted that both of the abovementioned hypotheses (economic value higher or lower than the  
172 fiscal value erroneously entered in the general accounts and, therefore, in the financial statements) often occur  
173 in the entrepreneurial reality of many companies in that, the double calculation of costs and revenues, relevant  
174 respectively in the civil/economic and fiscal sphere, causes a sort of 'duplication' of administrative work with a  
175 simultaneous increase in the complexity of the calculations aimed at determining taxable income and civil law  
176 income.

177 Although we are aware that such behaviour may give rise to doubts as to the legitimacy of financial reporting  
178 under civil law, and even though the impact of such accounting practice on the informative capacity of financial  
179 statement data is evident, there appears to be a widespread tendency to carry out such interference, frequently  
180 leading to internal financial reporting analyses conducted on such data being distorted by assessments that have  
181 nothing to do with the veracity of the financial statements. This is not the appropriate place to analyse the  
182 legal and internal company management consequences of the fiscal pollution of financial reporting caused by the  
183 osmosis between tax valuation criteria and statutory principles.

184 Since the object of our interest is to identify possible informational limitations of financial reporting that,  
185 directly or indirectly, may influence the assessment of the creditworthiness of companies, it seems relevant to  
186 emphasise the possibility that such an accounting practice may distort the income/financial/asset data being  
187 analysed.

188 Although it is difficult to understand whether tax valuations pollute financial reporting data, it should be  
189 emphasised that the presence of certain circumstances may facilitate the verification of the implementation of  
190 such an accounting practice. The indication, for example, that depreciation and amortisation, annual accruals to  
191 provisions for risks and charges, closing inventories, and other items of tax interest included in financial reporting  
192 coincide perfectly with the data used to determine taxable income should give rise, in this regard, to some doubt  
193 as to the economic veracity of the assets, liabilities, and income components recognised in the financial statements.  
194 While it cannot, *a priori*, be ruled out that economically correct values may coincide with tax values, the doubt  
195 as to the implementation of tax interferences is legitimate if, over the years, such identity continues unabated.

196 Whenever any uncertainty arises about possible tax interferences, those assessing the company's credit-  
197 worthiness should investigate this 'information issue' to have any valuable cognitive element for the correct  
198 understanding of the company's income/financial-patrimonial situation.

199 Communication limitations arising from the objective of the legal regulations on corporate financial reporting  
200 The last category of information limitations that, at least theoretically, may characterise financial reporting  
201 specifically concern the content of financial reporting governed by Articles 2423 et seq. of the Civil Code.

202 In order to understand how financial reporting can be profitably utilised as a tool for assessing creditworthiness,  
203 it is necessary to bear in mind the objectives that the civil legislator wishes to achieve through the legal regulation  
204 of the balance sheet, profit and loss, the notes to the financial statements, the cash flow statement and the  
205 directors' report, which, although not part of the financial statements, is mandatory for all corporations.

206 The primary objective of the legislation is, on the one hand, to guarantee the communication to the outside  
207 world of values that are economically, financially and patrimonial, correct, truthful and clear, and, on the other  
208 hand, to homogenise, formally, this communication by limiting the discretion of companies in the phase of  
209 'creation' and disclosure of accounting data.

210 Over time, the legislator has identified a series of rules that, at least according to the vision of those who  
211 promulgated the laws, should combine two fundamental needs: the uniformity of corporate disclosure intended  
212 for third parties and the recognition of dutiful and appropriate confidentiality concerning corporate data deemed  
213 sensitive.

214 Homogenising external disclosure is, without a doubt, one of the main objectives of the civil legislator, the  
215 OIC accounting standards, and the IAS/IFRS. Indeed, this element facilitates the understanding of accounting  
216 data for external users of companies.

217 However, this consideration must be interpreted in light of two elements that cannot be underestimated.  
218 Firstly, it must be remembered how the law and accounting standards correctly consider the need to guarantee  
219 the company a fair right to confidentiality that not even the broader 'stakeholder vision' of the company can  
220 deny. Specific information cannot be extracted from financial reporting as it identifies sensitive data and, although  
221 theoretically valuable for those who must assess the company's economic-financial situation, it cannot and must  
222 not be disclosed. Without referring to apparent elements such as, for example, the disclosure of data concerning  
223 the research and development of new products (even though c. III of Art. 2428 of the Civil Code III c., requires  
224 that research and development activities must, in any case, be disclosed in the management report), it is possible  
225 to identify other values that, although sensitive, do not identify striking cases such as the one mentioned above.  
226 Consider, for example, the requirement to disclose in the financial statements revenues and income, costs and  
227 expenses net of returns, discounts, allowances and premiums, as well as taxes directly related to the sale of  
228 products and provision of services (Article 2425 bis of the Civil Code). This provision prevents the company

229 from being obliged to disclose data concerning its sales policy that, in theory, could be used by competitors in a  
230 way that would harm the company's strategy.

231 In contrast to these examples of sensitive data, the non-disclosure of which is rooted in the company's right  
232 to confidentiality, there are disclosure limitations in publicly available financial reporting that create difficulties  
233 in interpreting accounting data without a fundamental right to privacy of the company being attached to them.

234 Consider, for example, the fact that while there is an obligation to disclose the short-term and long-term  
235 portion of all debts (aggregate D, balance sheet liabilities), there is no similar obligation in respect of provisions  
236 for risks and charges and severance pay liabilities. This is not the appropriate place for a doctrinal disquisition on  
237 the motivations that led the legislature to adopt certain decisions regarding the content of financial statements.

238 There is no doubt, however, that the dictates of Articles 2424, 2424 bis, 2425, 2425 bis, 2427, 2427 bis and 2428  
239 of the Italian Civil Code entail a series of limitations on the disclosure of information to the outside world that,  
240 directly or indirectly, may prevent a constructive and correct analysis of the company's financial and balance  
241 sheet data.

242 In these cases, it appears correct to refer to 'disclosure limitations of financial reporting publicly because,  
243 unlike the limitations analysed above (intrinsic limitations and limitations arising from incorrect application of  
244 the valuation principles governed by the Civil Code), the inability of the external user to access certain valuable  
245 information for corporate analysis, derives from an actual legislative imposition resulting, on the one hand, from  
246 the need to guarantee corporate confidentiality on sensitive data or, on the other, from legal choices that, for  
247 a series of more or less understandable reasons, the legislator has deemed correct than others. For an overall  
248 view of the operational consequences of such disclosure limits in financial reporting, the reader is referred to the  
249 following paragraph.

## 250 4 II. Financial Reporting to Third Parties

251 External to the Company: Analysis by Parties External to the Company; Objectivity vs. Subjectivity of the  
252 Profit and Financial Indicators Determined

253 The assessment of a company's creditworthiness must be based on a careful study of financial reporting data  
254 combined with an equally in-depth analysis of the company's prospects.

255 In this regard, it is worth emphasising how, nowadays, the performance of a correct, complete and structured  
256 financial reporting analysis is often considered an 'obsolete' operation and the result of theoretical knowledge that  
257 is now definitively outdated. Commercial motivations to develop new products push towards creating tools with  
258 fancy names that implicitly place financial reporting analysis among the technical tools of secondary importance.

259 Nothing is more deviant and dangerous. The analysis of financial reporting or, better still, of the latest  
260 financial statements (studying the trend of values is more meaningful than dwelling on the punctual data of a  
261 single financial year) can never be considered obsolete or replaceable by 'more innovative and/or refined' means  
262 of research.

263 Every value can be studied through various 'reading lenses' and the search for constant improvement of the  
264 classic study tools must be a common objective but, in no case, can balance sheet and profit and other investigative  
265 tools replace loss analysis since everything the company represents in economic and financial terms is summarised  
266 in the accounting values recorded in the financial reporting for the year.

267 Our investigation will focus on the problems that an external operator (such as a lender wishing to assess a  
268 company's creditworthiness) encounters in applying the so-called 'classical analysis tools to the financial reporting  
269 filed with the commercial register office.

270 What distinguishes us from other authors is that, in our opinion, the term 'classic' must be associated with a  
271 positive valence, unlike those who, in order to allow the dissemination of fanciful, as much as dangerous, theories,  
272 consider this locution as a synonym for 'outdated, obsolete and therefore, no longer usable'.

273 In every company, everything is reflected in the accounting data of the balance sheet. In reality, every policy,  
274 every action, and every decision is summarised in the company's balance sheet and financial and income figures.  
275 Even the debate on so-called corporate social responsibility frequently focuses on the interrelationship that can  
276 be identified between the implementation of sustainable socio-environmental policies and the maximisation, in  
277 the medium and long term, of operating income.

278 This assumes fundamental relevance in the assessment of creditworthiness.

279 In order to understand, on the one hand, the degree of difficulty an external user encounters in analysing  
280 a published financial report and, on the other hand, the degree of objectivity of the aggregates/indicators  
281 determined based on the findings of such a document, it is necessary to identify the elements based on which it  
282 is possible to make a judgement on the income, financial and asset situation of a company.

283 It is a well-known fact that the financial reporting output of the general accounts, if not properly processed,  
284 prevents any judgement on the company's condition. In this document, the values recorded in the balance sheet  
285 and profit and loss are entered randomly.

286 Only a proper re-aggregation of these values, followed by the identification of valid performance indicators,  
287 allows the development of a reliable and consistent analysis of the company's economic-financial situation.

288 It is not within the scope of this work to delve analytically into the subject of financial reporting reclassifications  
289 and the identification of the grid of indicators indispensable for understanding the 'real' company situation.

## 4 II. FINANCIAL REPORTING TO THIRD PARTIES

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290 Here, we will 'only' investigate the theoretical possibility of implementing a complete and objective analysis  
291 of the financial reporting data published at the company registry office.

292 Concerning the problem of the reaggregation of balance sheets and profit and loss values, it should be  
293 emphasised that the doctrine has developed a plurality of reclassification schemes. In the face of such a plurality  
294 of models, the analyst's choice, whether internal or external to the company, must fall on the scheme deemed  
295 most consistent with the objective of the analysis.

296 In the writer's opinion, the model that best succeeds in investigating the trend of the company's income and  
297 financial values is the integrated information system, as it is characterised by integration, formal and substantial,  
298 vertical and horizontal, of every part of the system which, on the contrary, is lacking in any other theoretical  
299 schematisation.

300 Since, however, the objective of this work is to identify the degree of complexity encountered by an external  
301 operator in analysing the accounting data recorded in financial reporting, it seems appropriate, instead of focusing  
302 on the structures envisaged explicitly by the integrated system, to attempt to identify the points in common of  
303 the various analysis schemes proposed by the doctrine. This makes it possible to assess, albeit in general terms,  
304 the main obstacles that any external analyst encounters when investigating a financial reporting public, regardless  
305 of the theoretical structures applied.

306 It appears evident how an external analyst can only perform a complete and objective analysis of financial  
307 reporting if the reclassifications imposed by the Italian Civil Code allow for the passage, automatically and free of  
308 any subjective evaluation element, to the regrouping schemes of the values chosen as reference for the calculation  
309 of the economic-financial indicators.

310 Concerning the balance sheet, comparing the various schematisation proposed by scholars to analyse the  
311 financial and equity situation of companies, it is possible to identify a characteristic that tends to permeate every  
312 reclassification structure.

313 Generally speaking, the reclassifications proposed by the doctrine envisage, at the very least, the subdivision of  
314 assets and liabilities according to a liquidity/exploitability criterion. According to this principle, assets, liabilities  
315 and shareholders' equity are interpreted as items that will be transformed into cash inflows or outflows in the  
316 future. Since the objective of any asset reclassification is to assess the short-and long-term financial equilibrium,  
317 the reclassified assets and liabilities/equity must be 'time-split', i.e. divided according to the maturity of the  
318 liquidity/expendability of the individual items. Conventionally, the separation time space taken as a reference is  
319 one calendar year. According to this logic, the accounting items are broken down as follows:

320 Reclassified Assets: Items that will translate into future income Short asset: Items that will result in future  
321 revenue within 12 months

322 Long-term asset: Items that will result in future income beyond the next 12 months Total reclassified assets  
323 are generally referred to as invested capital (IC)

324 Reclassified Liabilities: Items that will result in future cash outflows.

325 Short Liabilities: Items that will result in future cash outflows within 12 months Long-term liabilities: items  
326 that will result in future cash outflows in a period beyond 12 months after the closing of accounts Reclassified

327 Shareholders' Equity: Items that will result in future cash outflows (in theory, the company's last outflow before  
328 liquidation) and which, at the same time, identify the 'real' net wealth available to the company.

329 The reclassified liability total is generally defined as total sources.

330 On the other hand, as far as profit and loss are concerned, the various schematisation proposed by scholars,  
331 while presenting profound differentiation, generally provide for the determination of two particular aggregates:  
332 1. The income produced by the company's ordinary operations. This value derives from the contraposition  
333 between typical revenues (sales revenues) and characteristic costs (i.e. production, administrative, commercial,  
334 and research and development costs). This income is identified by various acronyms: ROGC (Characteristic  
335 Operating Income), GOP (Gross Operating Profit), etc. 2. Income from operations. This aggregate derives from  
336 the contraposition of the costs and revenues concerning the company's core business, the income components  
337 deriving from asset management (income components inherent in the assets invested in speculative and/or purely  
338 investment activities) and, lastly, the revenues connected with active financial management (revenues deriving  
339 from receivables and foreign exchange management). Operating income is generally identified by the acronym  
340 RO (Operating Income) or OP (Operating Profit)

341 As already emphasised, the systems of analysis prepared by the doctrine and considered as a whole, present  
342 profound substantive and formal distinctions. Here, however, given the objective of our study, we shall focus  
343 our attention only on the aggregates listed above, which, transversally, can be identified in almost all the  
344 reclassification structures proposed by the various scholars, albeit in the full knowledge that, even within the scope  
345 of the determination of these values, certain theoretical differentiations can be identified. In our investigation, we  
346 shall adhere to what has been indicated in the preceding pages because, in the writer's opinion, the content of the  
347 items illustrated therein represents the best compromise obtainable from a comparison of the various doctrinal  
348 positions expressed on the issue analysed here.

349 Only the objective and automatic placement of civil law items (Articles 2424, 2424 bis, 2425, 2425 bis of the  
350 Italian Civil Code) in the aggregates illustrated above, guarantees the determination of impartial and subjectivity-  
351 free indicators.

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352 Even with regard to the calculation of the indicators, the solutions proposed by doctrine and practice appear  
353 extremely varied.

354 Among the various ratios identified by scholars and practitioners, the ratios that most frequently present  
355 similarities, in terms of quantitative determination, can be summarised as follows:

356 Current ratio: short-term assets/short-term liabilities. It is used to assess the static short-term financial  
357 balance Quick ratio: short-term assets net of inventories and non-core short-term investments/short-term  
358 liabilities. This indicator is used to investigate the static financial balance in terms of liquidity (cash, bank  
359 and receivables)

360 Debt ratio: invested capital/equity. Another formula used: (Short-term liabilities+Long-term liabilities)/  
361 Shareholders' equity. This ratio shows the company's degree of indebtedness ROE: operating income/equity.  
362 ROE quantifies the company's overall profitability, i.e. the profitability of the company's equity ROA:  
363 operating income/invested capital. ROA, considering both the numerator and the denominator, the operational  
364 management, i.e. the totality of the company's characteristic, capital and financial assets, is used to express an  
365 opinion on the company's operating performance ROI: income from core business operations / capital invested  
366 in core business operations (i.e. total invested capital stripped of all items not related to the company's core  
367 business) ROS: income from ordinary operations/typical revenues. ROS, or return on sales, measures the degree  
368 of profitability of the company's turnover.

369 The indicators mentioned above identify only a fraction of the ratios identified by the various systems of  
370 analysis proposed by doctrine and practice. Despite this, however, it is possible to state that, albeit with some  
371 differentiations, the ratios illustrated are 'transversal', and therefore present, in every theoretical schematisation.

372 The objectivity of the indicators, which are calculated on the basis of the values of the financial reporting-  
373 publicly available at the company registry office, depends on the possibility of unambiguously placing the items  
374 provided for by the Civil Code in the aggregates identified above.

375 The more the phase of regrouping the book values is characterised by subjective assessments of the analyst,  
376 the greater the danger of determining approximate, partial and arbitrary ratios.

377 To conclude this brief introduction, it must be emphasised that interpreting reclassification as a mere automatic  
378 operation devoid of considerable importance in analysis results in the potential determination of aggregates  
379 marked by significant theoretical errors.

380 Those who underestimate the relevance of the re-aggregation of financial reporting data and, consequently,  
381 delegate this operation to non-experts often believe that the 'noble' part of the analysis is confined to the  
382 interpretation of the indicators determined based on those re-aggregations.

383 If the starting basis for calculating the indicators is incorrect, determining the economic/financial in-  
384 dices/flows/aggregates will also lead to false and, consequently, misleading results.

385 Merely by example, we can analyse an account that frequently has a conspicuous and absurd posting in the  
386 wrong aggregate in the restatements: advances from customers.

387 This value appears in the having section in a balance sheet output of the general ledger (and thus, not  
388 reclassified). Hence, in the statutory scheme, the recognition of this item in the aggregate D) Payables.

389 One of the most frequent errors made by inexperienced analysts is to place advances from customers as a  
390 deduction from the item receivables. Such a placement results from a misinterpretation of the item. Advances  
391 do not represent, like the allowance for doubtful accounts, an adjusting item to receivables already entered in  
392 the reports, but rather identify an article that, in the event of successful contracts, will result in a reduction in  
393 future receipts (compared to the value shown on the invoice) deriving from the sale of products or services.

394 The error inherent in recognition of advances to customers is easily understood by considering this example:  
395 1/6/n receipt of advances from customers for 1000 + VAT: recognition, in General Ledger., of advances from  
396 customers for 1,000, debit VAT for 220, cash entry for 1,220; 1/7/n sale invoice issued in connection with the  
397 preceding advance for 10,000 + VAT: recognition, in General Ledger .., of revenue for 10,000 with simultaneous  
398 closure of advance payments from customers and recognition of the receivable from customers for an amount  
399 equal to revenue (10,000) + VAT (1,980 or both 22% of 9,000) net of the advance payment (1,000) which, at the  
400 same time, is closed. The credit to the customer is credited in the amount of 10,980.

401 This simple example shows how the presence of an advance from customers in debit is incompatible with  
402 recognising the associated trade receivable in debit. If the passage exists, the receivable from customers cannot  
403 have been opened while, on the contrary, the existence of the trade receivable implies that the advance account  
404 has been closed. For this reason, customer advances cannot relate to trade receivables recognised in debt and,  
405 consequently, can never be deducted from trade deferred cash or longterm assets.

406 When analysing reclassified financial statements for analytical purposes, it can see that another frequent error  
407 is the recognition of customer advances in either short-term or long-term liabilities. This placement is not always  
408 acceptable. Advances from customers represent an item whose reclassification presupposes an analysis of the  
409 contracts associated with the advance.

410 For the reclassification to determine the significant aggregates, it is necessary to distinguish advances according  
411 to whether the contract to which they refer is supposed to be successful or, on the contrary, subject to potential  
412 termination and/or cancellation. Secondly, it is necessary to consider certain peculiarities of the individual  
413 hypotheses. If the advance relates to contracts with a definite term, it must distinguish the case of advances  
414 concerning tangible goods from that in which the passages relate to services. On the other hand, if the advance

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415 was paid by customers whose contracts are supposed to be terminated, it is necessary to subdivide the advance  
416 payments according to whether there is an obligation to repay the amount paid by the debtor. This subdivision  
417 of advances is necessary because each type of advance corresponds to a specific reclassification. In particular:

418 1. Advances from customers related to contracts subject to hypothetical future termination or cancellation with  
419 the right to repayment of the amount paid must be included in short-term nonfinancial liabilities if repayment  
420 to the customer is expected within the following year, or in long-term non-financial liabilities, if repayment  
421 is expected beyond the following year. 2. Advances from customers in connection with contracts subject to  
422 hypothetical future termination or cancellation without the right to reimbursement of the amount paid cannot,  
423 on the other hand, be included in short-term or long-term liabilities because they will not transform such advances  
424 into future outflows precisely because of the absence of the customer's right to reimbursement. Since the retained  
425 advancement will turn into out-of-period income, the monetary flow of which has already occurred previously  
426 (at the time recognised in advance), the item in question is characterised by the absence of future impact on  
427 the cash/bank. Therefore, the advances from customers under analysis will result in neither future income nor  
428 expenditure. For this reason, to avoid reclassification leading to the determination of nonsignificant aggregates,  
429 it is deemed appropriate to recognise this item within sources, taking care not to include it in any of the sums  
430 constituting the liability side of the balance sheet. Therefore, while forming part of the "breakeven total"  
431 recognised on the debit side of the reclassified balance sheet, these advances do not form part of either short-term  
432 or long-term liabilities or shareholders' equity. They, therefore, constitute a separate item, forming part of the  
433 general total of the debit side of the balance sheet, the recognition of which in the reclassified balance sheet  
434 is necessary to reconcile needs and sources. 3. Advances from customers related to contracts not subject to  
435 hypothetical future termination and/or cancellation concerning the supply of goods with materiality cannot be  
436 included in the short or longterm liabilities as they will not result in future outgoings.

437 Nor can this item be recognised, with a negative sign, within the accounts receivable from customers. When  
438 the sale of products is recorded, the debit item "advances from customers" is eliminated, without giving rise to  
439 any disbursement, to show the residual receivable from customers in the accounts and thus net of the amount  
440 already paid.

441 On the other hand, advice from customers in connection with contracts that are not subject to hypothetical  
442 future termination and/or cancellation must be deducted from liquid assets.

443 In this regard, it should note that inventories are included in short-term assets because it is believed that  
444 income at least equal to the financial reporting valuation of the stocks can be derived from the sale of the  
445 inventories. However, suppose the customer has already made a down payment. In that case, the monetary  
446 income from the stock sale will be at least equal to the financial reporting value of the inventories, less the down  
447 payments made by the customer.

448 The situation may be more problematic if the amount of the down payments exceeds the value attributed to  
449 the inventory (a particularly unusual hypothesis). Should this circumstance occur, it must deduct the amount  
450 of the down payments up to the value of the stock itself from the stock. On the other hand, the considerations  
451 made above regarding advance payments from customers in connection with contracts are subject to hypothetical  
452 future termination or cancellation without the right to refund the amount paid to apply. In this case, as well,  
453 it is deemed that, due to the impossibility of recognising the item within the asset and liability aggregates  
454 illustrated above, the item should be recognised within sources, taking care, however, not to include it in any  
455 of the aggregates constituting the liability side of the balance sheet. Therefore, even though these advances will  
456 form part of the sources, they will not form part of either the shortterm or long-term liabilities, nor will they form  
457 part of shareholders' equity. They will therefore constitute a separate item whose recognition in the reclassified  
458 balance sheet is necessary to reconcile requirements and sources.

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460 contracts not subject to hypothetical future termination and/or cancellation concerning the provision of services  
461 cannot be included in shortterm or long-term liabilities because they do not represent future expenditures.

462 The circumstance that the services to which the advances refer are not recognisable as assets make it impossible  
463 to deduct them within the scope of liquid assets. Their inclusion in the context of short-term or longterm  
464 liabilities or assets with a negative sign would lead to determining insignificant aggregates. For these items, the  
465 considerations outlined above for advances to customers not recognisable in any of the aggregates of current/long-  
466 term assets and current/long-term liabilities/equity also apply. Even in this case, these amounts will constitute  
467 a separate item whose recognition in the total of the "debit" section of the reclassified balance sheet is necessary  
468 to ensure the document's balance.

469 This simple example, to which many others could be added, shows how the reclassification of financial reporting  
470 data requires in-depth accounting expertise in what seems trivial, evident and obvious. The choice for this  
471 demonstration has fallen on advances from customers, not because this item, in the financial statements, assumes  
472 a particular relevance, but because it identifies an accounting item that, in the face of an apparent reclassification  
473 triviality, hides a complexity that only an expert analyst can understand, address and overcome.

474 The list of items potentially creating considerable problems during the data regrouping phase is exceptionally  
475 long. However, this is not the appropriate forum to investigate such a problem in depth.

476 The brief considerations above aim 'only' to understand whether an analyst outside the company, in possession

477 of only the published financial reporting, can identify objective income and financial-equity indicators or  
478 whether, on the contrary, subjective intervention is required for the correct placement of accounting items in  
479 the reclassification schemes from which, directly, the quotients and other aggregates indispensable for assessing  
480 the creditworthiness of a company arise.

481 As already pointed out, the objectivity of the indicators is guaranteed by the presence of two conditions: 1.  
482 The party responsible for reclassifying financial reporting data must possess a high level of technical expertise; 2.  
483 All the information required for correctly reclassifying accounting items must be present in the financial reporting.

484 Assuming that the first condition is observed (which, in reality, is not always the case), our attention must  
485 focus on the existence of the second condition.

486 Given the nature of this work, it is not possible to perform an analysis of every civil law item.

487 However, let's compare the civil law reclassification structures, supplemented by the contents of the report of  
488 the notes to the financial statements of the management report, with what is required by a regrouping of the  
489 accounting values carried out for analysis. It is possible to find some specific information gaps. Merely by way  
490 of example one may, for instance, note that:

491 Article 2424 of the Civil Code does not require the indication of the short-term and long-term portion of  
492 provisions for future risks and charges. The transposition of the civil item in the reclassification for analysis  
493 inevitably implies a subjective intervention by the party responsible for regrouping the balance sheet data. It  
494 is evident that, in the absence of specific information, the breakdown of all provisions can only occur based  
495 on assumptions that, if they do not reflect the company's reality, lead to the determination of nonsignificant  
496 aggregates.

497 In addition to these considerations, it must also emphasise identifying future expenditures, but instead, turn  
498 into lower revenues or even lose any element of financial impact. Take, for example, the product guarantee fund.  
499 The portion corresponding to the value of spare parts in the warehouse should, hopefully, be deducted from the  
500 stock amount just as it would be correct to remove from inventory the portion of a customer premium fund  
501 corresponding to goods produced within the company itself. If, then, it could reasonably assume that the funds  
502 would turn into contingent assets (e.g. due to rulings of tax commissions, judgments of merit or legitimacy,  
503 etc.), the item, in the absence of any future financial impact, would have to be recognised in an aggregate that,  
504 although part of the breakeven total or invested capital, cannot, of course, influence the short or long term  
505 liabilities/assets. Consider the case where a tax provision is connected to a tax dispute that is the subject of  
506 a ruling in favour of the taxpayer issued concerning a situation similar to the one for which established the  
507 provision. In such a case, the tax provision, in anticipation of its cancellation with the simultaneous recognition of  
508 a contingent asset, must necessarily be recognised in an aggregate of separate items which, although forming part  
509 of the section total (in this specific case, the total assets section), cannot be recognised in any short and/or long  
510 term asset/liability aggregate since, in connection with this item, no future cash inflows or outflows will realise.  
511 Still, it will be implemented in a mere scriptural operation of cancellation of the provision. It is clear that the  
512 total absence of such information in the civil law context prevents the provisions for liabilities and charges from  
513 being correctly allocated. This circumstance, which, in the presence of conditions characterised by significant  
514 amounts, can significantly affect the results of the financial statement analysis. In this regard, it should note that  
515 point No. 4 of Article 2427 of the Civil Code requires that, in the notes to the financial statements, 'the changes  
516 that have occurred in the consistency of the other items of assets and liabilities; in particular, for equity items,  
517 for provisions and severance pay, the formation and utilisation'. Point No. 7 of the same article emphasises  
518 that the report of the notes to the financial statements must also indicate 'the composition of the items "accrued  
519 income and prepaid expenses" and "accrued expenses and deferred income" and the item "other provisions" in  
520 the balance sheet, when their amount is appreciable, as well as the composition of the item "other reserves".'

521 Based on the statutory provision, at least in theory, it might be possible to derive useful information about the  
522 timing of the collectability of requirements. For this regulatory provision to allow for the perfect and objective  
523 allocation of the short-term and long-term portions of all requirements (including the part that must necessarily  
524 be recognised as a separate item), it must observe three contextual conditions: 1. The analyst must reclassify  
525 the financial reporting in light of the information contained in the report of the notes to the financial statements;  
526 2. In this document, all accounting operations performed on the individual provisions for risks and charges must  
527 be illustrated, in detail and with specific reference to each type of provision included in the three aggregates  
528 B Provisions for risks and costs (1 for pensions and similar obligations; 2 for taxes, including deferred taxes; 3  
529 others), with particular reference to utilisations (specifying the reasons for utilisation), provisions, accounting  
530 reversals, etc.; 3. The operator carrying out the analysis must have the financial report of the financial year  
531 following that, which identifies the last year to which the index analysis refers. In other words, if the years being  
532 analysed are N, N+1, and N+2, the analyst must also be able to consult the financial report of the year N+3.  
533 In the absence of this possibility, the funds reported in the financial information for the period N+2 cannot be  
534 objectively placed even if the conditions set out in points 1 and 2 were perfectly observed. It seems appropriate  
535 to emphasise that, by definition, if the last financial year considered was the year before the period still to run,  
536 the condition set out in this point is, technically, not feasible.

537 The simultaneous fulfilment of the above three conditions appears to reflect, rather than reality, mere wishful  
538 thinking. In particular, the conditions identified in points 2 and 3 appear to be very difficult to observe due,  
539 on the one hand, to the conciseness of the information that, in general, characterises the report of the notes to

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540 financial statements, and, on the other, to the frequent technical impossibility of analysing the financial report  
541 of the financial year following the last one being analysed as it is, often, still in progress. While not excluding,  
542 therefore, the theoretical possibility of objectively placing the provisions for risks and charges in the reclassified  
543 profit and loss, it seems arduous to affirm that such a hypothesis is frequently realised or even, can be found in  
544 the reality of financial reporting analyses carried out exclusively from outside the companies.

545 Article 2424 of the Italian Civil Code requires the recognition of the termination indemnity liability (aggregate  
546 C) without requiring the simultaneous indication of the short-term and long-term portion. In the absence of this  
547 reference (e.g. analysis of the company's most recent financial reporting), it is impossible to divide the item into  
548 the short and long term. Unlike the provisions for liabilities and charges, however, the specific expression of the  
549 TFR portion about the year and the total amount of the TFR debt allows, by cross-referencing the two data, to  
550 objectively determine the breakdown of the short-term and longterm portion of the debt. However, this can only  
551 be done if the analyst also possesses accounting data for the year after the analysis.

552 As an example, let us assume the analysis of the financial statements of financial years n and n+1. Financial  
553 reporting year n: termination benefit liability 100; accrued termination benefit 20. Financial reporting year n+1:  
554 termination benefit liability 104; accrued termination benefit 10. If at 1/1/n+1, the TFR payable is 100 and the  
555 TFR accrual in year n+1 is 10, at 31/12/n+1, one would expect a TFR payable of 110. Since it is instead 104,  
556 it can state that in year n+1, it paid out termination benefits in 6. Consequently, in the financial reporting of  
557 year n, the termination benefits payable is short-term in the amount of 6 and long-term in the amount of 94. On  
558 the other hand, in the absence of the data for year n+2, it is impossible to identify the short-term and long-term  
559 portion of the TFR debt existing at 31/12/n+1.

560 It is evident how the analysis of the data of a financial report published, therefore, if not in the presence of  
561 the financial reporting of the following year, may lead to an inappropriate allocation of the item in question with  
562 the potential consequences easily identifiable on the results of the analysis.

563 Since no. 4 of Article 2427 of the Italian Civil Code also refers to the liability for termination indemnities, the  
564 considerations set out above in respect of provisions also apply, in total, to the item considered here.. Article 2424  
565 of the Civil Code does not require the specific recognition of certain advances. Suffice it to think of advances on  
566 severance pay, an item that, in some companies (e.g. co-operative societies), may be characterised by relatively  
567 high amounts. In the Civil Code, such advances are recognised indistinctly, with all other receivables. In the  
568 context of the reclassification carried out for analysis, the inclusion of this item under either short-term or long-  
569 term assets would constitute a severe logical error since the advance given to workers will not be transformed  
570 into future income but instead will result in a lower outflow. The passage on severance pay must, therefore,  
571 necessarily be deducted from the short-term or long-term liabilities, depending on the maturity date connected  
572 with the employee's severance pay liability to which part of the severance pay has been advanced. In the presence  
573 of such advances, the transition from financial reporting civil to reclassified reporting for analysis purposes entails  
574 the determination of aggregates that, potentially, could be insignificant. It should also note that, even though  
575 the individual amounts are available for advances to customers and suppliers, information is absent from the  
576 published financial reporting that, while in many cases is of little interest, in others, may be very important.  
577 We intend to refer to the issue related to down payments that, in all likelihood, will not result in less revenue  
578 or expenditure (as is the case with contracts that are assumed to be successful) but will be subject to write-off  
579 due to probable termination/termination of the contract. When these cases occur, checking whether the advance  
580 payment is expected to be repaid necessary. If not, it is essential to assume recognition of the entry in the  
581 separate items of the debit (advances to suppliers) or debit (advances from customers) column. The information  
582 required for this purpose is not included in the data prescribed by the Civil Code. In the case of small amounts,  
583 this absence does not affect the analysis results. In the presence, on the other hand, of significant quantities, the  
584 lack of such information could, at least theoretically, seriously affect the correct reclassification of the item.

585 Article 2424 of the Civil Code does not require specific recognition of own bonds, i.e., bonds purchased by the  
586 issuing company. Such securities must, indistinctly, be recognised under securities (B III 3; C III). Should such  
587 values have the company for cancellation of the same, the recognition of such amounts under assets would result  
588 in the determination of incorrect aggregates since, as is the case for severance indemnity advances, in the event of  
589 future cancellation of the bonds, the value is to be recognised, not under assets, but as a deduction from liabilities.  
590 Again, failure to disclose the presence of own obligations may be a harbinger of potential reclassification errors.

591 Article 2425 of the Italian Civil Code provides that ordinary capital gains (arising from the sale of deferred  
592 assets) and ordinary contingent assets (arising, for example, from valuations of events to which the funds are  
593 connected that have turned out not to be following reality) are to be recognised in item A5. In this item,  
594 characteristic revenues from the sale of company by-products, rents receivable and so-called 'other revenues'  
595 must also be entered, with a separate indication only of operating grants. In item B 14, on the other hand,  
596 ordinary capital losses and contingent liabilities are also to be recognised indistinctly regarding sundry operating  
597 costs. This circumstance makes it impossible to identify the total amount of regular capital gains/losses/ out-of-  
598 period expenses, which, by definition, in the reclassification of profit and loss carried out for analysis purposes, do  
599 not form part of either ordinary or operating management. Such an information gap can, in the presence of such  
600 items, represent the element that radically impedes the determination of income from normal business activities  
601 and operating income. Often, the indistinguishable indication, concerning other revenues and expenses, of typical

602 gains/losses and out-of-period income causes items A 5 and B 14 to be recognised, for their total amount, in  
603 expected revenues and expenses, with grave detriment to the informative capacity of these aggregates.

604 Based on the above considerations, the degree of objectivity/subjectivity of the indicators listed in the  
605 preceding pages and determined based on the mere results of the financial reporting to be disclosed to third  
606 parties outside the companies are as follows:

607 Current ratio: subjective determination as it is not possible to objectively determine current assets and  
608 current liabilities Quick ratio: subjective determination, as it is not possible to objectively determine short-term  
609 liabilities Debt ratio: subjective determination in that particular item which, on regrouping, must be deducted  
610 from the opposite column (e.g. advances from customers, specific provisions for risks and charges with particular  
611 characteristics, advances on termination indemnities, own bonds destined for cancellation, etc.) are not shown in  
612 the statutory schemes ROE: objective determination since, from the financial reporting public, it is possible to  
613 quantify, in a precise manner, both operating income and shareholders' equity ROA: subjective determination as  
614 neither operating income nor invested capital can be determined objectively ROI: subjective determination as it  
615 is not possible to determine, objectively, either the income from operating activities or the invested capital ROS:  
616 subjective determination as it is impossible to objectively determine income from core business activities.

617 The above highlights just some of the reclassification problems encountered by a user outside the company.

618 Since financial reporting civil analysis represents a fundamental element of knowledge for multiple users  
619 (credit institutions, potential customers, existing customers who need a new assessment of the company's  
620 creditworthiness, etc.), it appears not only legitimate but indispensable to find solutions to the obstacles created  
621 by the information gaps in financial reporting civil analysis. The external operator must, therefore, necessarily  
622 make subjective choices regarding items lacking the specific legal indications that would guarantee a correct and  
623 objective placement in the reclassification schemes.

624 Acknowledging the existence of obstacles does not mean that it is impossible to proceed with the analysis of  
625 external financial reporting.

626 As in the case of certain infirmities, according to Sigmund Freud's authoritative statement, the patient's  
627 'consciousness of illness' represents a decisive step towards the solution of the medical problem, even in the field  
628 of our interest, the perception of the limits of the instrument used for analysis identifies the critical element  
629 for overcoming the difficulties connected with the study and for correctly interpreting the results which, in an  
630 ineluctable manner, arise from the subjective choices made by the analyst.

631 The perception of the subjectivity of the aggregates determined based on what is imposed by the civil code  
632 and the consequent recognition of the lack of objectivity and neutrality of the indicators selected based on such  
633 regrouping allows, at the very least, for the interpretation of the results obtained, more coherently and correctly  
634 than would be the case if one were to attribute to such values, unrealistic impartiality and equanimity.

635 The significance of the analysis carried out on the financial reporting published at the company registry office  
636 depends on the ability to ensure that the analysis's subjective choices reflect the management reality of the  
637 company being examined.

638 Unfortunately, in this specific context, the most relevant obstacle is represented by the circumstance that, if one  
639 relies exclusively on statutory data, it is not possible to assess the degree of subjectivity of the restatements and,  
640 consequently, there is the impossibility of expressing a judgement on the soundness of the indicators identified  
641 as a result of the analysis carried out from outside the companies.

642 From the above, it can understand that it is perfectly conceivable that the indicators, identified from the  
643 outside, correctly represent the business reality of which they are an emanation.

644 For the same reason, however, it is equally possible that the results of the analysis carried out on the financial  
645 reporting are distorted by incorrect interpretations of the values, which, necessarily, must be subjectively re-  
646 aggregated by the analyst.

647 Unfortunately, it is not known when either case occurs.

648 Of course, it can resolve any potential interpretative problems by gathering specific information, which,  
649 hopefully, should be provided directly by the company subject to the creditworthiness assessment.

650 Therefore, the analysis can only be correct and objective if the company is willing to provide all the data for  
651 implementing the balance sheet analysis, not included in the information set provided by the statutory legislator.  
652 For the results of the research to be reliable, it is, however, necessary that the willingness of the client company to  
653 communicate is accompanied, on the one hand, by the desire of the analyst to supplement, what is provided for  
654 by the code with supplementary information, and, on the other hand, by verifying that the person charged with  
655 carrying out the analysis is endowed with a vast knowledge of the problems connected with the reclassification  
656 of accounting documents and the determination of the quotients. All too often, even in economically significant  
657 realities, the analysis is delegated to operators who, despite having general expertise, show deficiencies in the  
658 specific area covered by this discussion.

659 III. The Management Report, Which is not Part of Financial Reporting but is a Mandatory Document, can  
660 make up for the Informational Limitations of Financial Reporting Intended for Third Parties Outside Companies?

661 In the previous pages, we have shown how the determination of aggregates and financial-patrimonial income  
662 indicators carried out based on financial reporting intended for outside the company (and, in Italy, published at  
663 the company registry office) can hide pitfalls that, at least in theory, can lead to erroneous considerations about  
664 the company's situation and, consequently, about the creditworthiness of that business entity.

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665 A superficial reading of Art. 2428 c.c. could mistakenly lead one to believe that the informational limitations  
666 of financial reporting civil illustrated in the preceding pages can be overcome by what must be, obligatorily,  
667 contained in the management report.

668 Indeed, Article 2428 c.c., in I and II c., states that "financial reporting must be accompanied by a directors' report containing an accurate, balanced and comprehensive analysis of the company's situation and the performance and results of operations, as a whole and in the various sectors in which it has operated, including through subsidiaries, with particular regard to costs, revenues and investments, as well as a description of the principal risks and uncertainties to which the company is exposed.

673 The analysis referred to in the first paragraph shall be consistent with the size and complexity of the company's business and shall contain, to the extent necessary for an understanding of the company's situation and the performance and result of its operations, financial and, where appropriate, nonfinancial performance indicators relevant to the company's specific business, including information about the environment and personnel. The analysis shall contain, where applicable, references to the amounts reported in the financial reporting and additional clarifications on them."

679 The explicit reference to the requirement to include "financial performance indicators", if misinterpreted, could instil in the reader the certainty that, from reading the annual report, information can be derived, which, as provided by the company, is marked by the absence of the interpretative problems illustrated in the preceding pages.

683 To assess the external informational impact of the management report, it seems appropriate to point out that Article 2428 of the Civil Code requires the disclosure of a series of news, the objective identification of which is difficult to achieve.

686 The prescriptions in I c. of Art. 2428 c.c. Concerning, for example, "the faithful, balanced and exhaustive analysis of the company's situation and the trend and result of management as a whole and in the various sectors in which it has operated" and "the description of the main risks and uncertainties to which the company is exposed," identify in fact, concepts whose schematization is subject to such a degree of subjectivity that, inevitably, makes the boundary between exhaustive/correct information and incomplete disclosure of company data very haphazard.

692 This feature is accentuated when considering the additional information that, by law, must be disclosed through the management report. And through what form of communication should such information be disclosed? Through subjective evaluations, quantitative determinations, or even economic-financial assessment?), points out that the content of the management report, as governed by Article 2428 of the Civil Code, is far from being free of evaluative elements of a purely subjective nature. Indeed, the above identifies a list of information, the exact connotation of which takes on contours that cannot technically identify objectively.

698 If subjectivity inevitably characterises the preparation of any financial statements, the degree of "personal evaluation" in the drafting of the management report reaches its apex.

700 Apart from these general introductory considerations, to clear the field of misunderstandings, it is necessary, first of all, to clarify that the phrase "financial performance indicators" refers not to ratios, whose task is to delve into the company's financial situation, but to all quotients of a financial, income and equity nature. 703 On the other hand, "non-financial indicators pertinent to the company's specific business" refer to the various ratios that measure efficiency, development, productivity, innovation, customer relations, strategic and/or market 705 positioning, etc... The obligation to disclose financial and nonfinancial indicators could, mistakenly, be interpreted 706 as the "missing" objective information element in the financial reporting published at the corporate registry office 707 (financial reporting for third parties).

708 Apart from the problematic theoretical nature of determining the list of indicators to be included in the report (doctrine and practice have identified a plurality of indices, and selecting those considered "most significant" 710 is not a simple matter due to the divergent doctrinal opinions on the concept of "relevant and significant"), it 711 is necessary to deal with an additional problem. Indeed, from a comparison of the various doctrinal opinions 712 shows that the same index is often given different titles, and the same acronym identifies a plurality of ratios, 713 profoundly different from each other.

714 To understand the impact of this issue, it is helpful to refer to two values that unquestionably play a crucial 715 role in financial statement analysis: the debt ratio and the net financial position.

716 The value assumed by the debt ratio assumes considerable importance in understanding the degree to which 717 the company depends on external borrowing sources. This ratio, however, can be determined according to various 718 formulations:

719 1. Capital Employed/Equity 2. (Total short-term liabilities + total long-term liabilities) /Equity 3.  
720 Equity/invested capital 4. Equity/ (Total short liabilities + total long liabilities).

721 The various technical formulas pose no problems interpreting the data as long as the analyst knows the relevant 722 procedure. Stating, for example, that the debt ratio amounts to 3.2 in itself does not provide any information 723 about the company's autonomy from external sources if, upstream, there is no knowledge of how the ratio is 724 calculated.

725 The net financial position, an aggregate to which, in recent years, has been attributed an everincreasing 726 informative capacity, also poses the same interpretative problems. In this regard, enlightening is the analysis 727 carried out By the Research Institute of Certified Public Accountants and Bookkeepers (henceforth RICPAB)

728 in Paper No. 22 of 2013 entitled "The Recording of Indicators in the Management Report. The net financial  
729 position." The paper states, "business economics doctrine has not devoted ample space to the issue in question;  
730 nevertheless, interpretative positions can be found that are sometimes not entirely convergent, leading to the  
731 formulation of different configurations of Net Financial Position. The issue is mainly attributable to the  
732 consideration (and related interpretation) of the items that become part of the computation: one alludes, in  
733 particular, to the declination of non-liquid/liquidate financial assets given that while one part of scholars seems  
734 to exclude them, others vice versa seems to advocate it." After conducting a theoretical survey of the doctrinal  
735 proposals considered of more outstanding merit, IRCDEC concludes by stating that "the review conducted so far  
736 makes it possible to highlight how, on a theoretical and methodological level, there coexist a variety of approaches  
737 identifying the net financial position, although there is no prevailing representation. Rather, the utmost attention  
738 should be paid to the correct interpretation of this quantity, specifying the calculation methods on the occasion  
739 undertaken, as these are strictly instrumental to the related cognitive needs."

740 In the face of such a varied composition of doctrinal, theoretical proposals, there is also an equally multifaceted  
741 overview of the reference models used by the practice. After pointing out how, often, from official IAS/IFRS  
742 documents, CESR, Assonime, etc., differentiated locutions are used to identify what the RICPAB identifies as net  
743 financial position, document No. 22/2013 it is emphasized how each body has seen fit to propose a differentiated  
744 quantification of the aggregate as mentioned above. At the end of this examination, the RICPAB offers a  
745 conceptualization of the net financial position that, at least in the intentions of the research institute, should  
746 represent a theoretical synthesis of what is illustrated in the document using substantial "reasoned" adherence,  
747 with the consequent contribution of modifications, to the approach proposed by a part of the doctrine defined,  
748 by the research institute as "the most accredited".

749 Following this synthesis, the RICPAB arrives at the following determinations/definitions: More than the  
750 composition of the net financial position proposed by the RICPAB, the conclusion reached by this research  
751 institute is of considerable significance.

752 After highlighting the proposed determination of the net financial position above, the RICPAB states verbatim  
753 that "it constitutes only one of the possible approaches that can take."

754 All this demonstrates that well alive is the awareness that the locutions used by doctrine and practice to  
755 identify financial (and income) aggregates will continue to be marked by substantive and formal differentiations  
756 about their composition and determination.

757 What has been given above as an example to demonstrate the impossibility of attributing unambiguous  
758 meanings to locutions identifying aggregates and/or indicators applies, in reality, to any accounting value resulting  
759 from reaggregations and/or comparisons between values.

760 The indicators derived from the various positions, doctrinal and/or proposed by practice, take on different  
761 meanings depending on how the data is constructed, with the apparent consequence that associating a given  
762 result with a specific acronym, in the absence of analytical indications on how both the indicator and the  
763 essential aggregates used to determine that indicator, may prove to be a useless or, even, dangerously misleading  
764 operation. This, of course, leads to a severe problem of communication with the outside world. The absence of  
765 specific information regarding the composition of the data disseminated through the management report may  
766 render the value insignificant.

767 The above considerations, regarding both the structuring of the indicators and the reclassification basis to  
768 which these ratios refer, have caused authoritative scholars and prestigious study centres and/or institutions to  
769 highlight the need to accompany financial performance indicators with the supplementary information mentioned  
770 earlier.

771 It should be noted, however, that despite the solicitations from various organizations/bodies/scholars, the  
772 indicators provided in the reports, in the majority of cases, are not accompanied by any specification as to how  
773 the ratio is calculated, resulting in a reduction or, even, nullification of the informative capacity of the data  
774 disclosed to third parties outside the companies.

775 Even if the problem identified above was overcome by comprehensive disclosure of how the ratios are  
776 constructed to attribute the correct meaning to the indicator's performance, it is still necessary to overcome  
777 a further difficulty, which is undoubtedly the most difficult.

778 The significance of each indicator is directly related to the correctness with which the individual items have  
779 been regrouped and reclassified. The incorrect recognition of an item can distort the results derived from the  
780 calculation of the ratios.

781 Any incorrect reclassification of accounting items must, therefore, be stigmatized, regardless of the conse-  
782 quences that this unacceptable accounting behaviour causes on the amount of financial performance indicators.

783 The recognition, within the reclassified financial reporting, of advances from customers in the liabilities, of  
784 advances from severance pay, in the assets, of provisions in the long liabilities, of provisions for depreciation in  
785 the liabilities, of own shares in the assets, and so on, also appears very frequent. Circumstances can lead to  
786 unmeaningful results in underestimation and overestimation of the dangers and/or positive elements identifiable  
787 in the company's income, financial, and asset situation.

788 Since we have not researched a statistically relevant sample, we do not claim to identify and generalize  
789 correlations between events with certain degrees of probability. Each of our statements, therefore, represents

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790 an element of knowledge that may indicate certain caveats/appropriate/inappropriate behaviours, the existence  
791 of which must be verified on a case-by-case and company-by-company basis.

792 However, there is no doubt that the frequency of such reclassification errors is incredibly significant, especially  
793 in small and medium-sized companies. A circumstance which follows, is the possibility that, in the presence of  
794 such logical/technical errors, any consideration based on such values is not meaningful and, therefore, misleading.

795 The previous highlights the difficulty or, rather, the impossibility of considering the management report as a  
796 document that directly can fill the information gaps in the financial reporting of the financial year published at  
797 the Registrar of Companies office relating to individual accounting items.

798 Since art. 2428 c.c., in III c, imposes that the report must, in any case, show the foreseeable development  
799 of operations; one might lead to assume that, at the very least, concerning this element, beneficial information  
800 can be drawn to assess the creditworthiness of a company. Here, too, the hope often runs up against a different  
801 reality from what, in theoretical terms, might be assumed from the tenor of the legal standard.

802 The information regarding the company's prospects is usually substantiated by a very general analysis of the  
803 trend of the reference markets with generic indications about the company's economicfinancial planning.

804 There is no doubt that, concerning this issue, the company must recognise a broad right of confidentiality since  
805 the disclosure of sensitive data could backfire on the company itself. A reading of management reports highlights  
806 the general tendency of companies, especially if they are medium-sized, to disclose generic data, in reality lacking  
807 any informative weight regarding the assessment of creditworthiness.

808 As evidence of this, it can be borne in mind how, assuming the assessment of a company's creditworthiness,  
809 a business plan is required to be prepared, which, very rarely or, more correctly, practically never, is included in  
810 the management report. The imposition of the preparation of such a document that is not present in financial  
811 reporting in documents attached to the latter demonstrates, if ever there was a need, that the papers published  
812 at the business registry office be considered a valid basis of information to assess creditworthiness, must be  
813 supplemented by a range on the information provided, directly, by the company subject to analysis.

814 Assuming that it is possible to judge a company's situation based solely on published documents can identify  
815 unrealistic operations unless the internal corporate culture is so high that it perceives communication to external  
816 operators as a fundamental element of an ethical/social and strategic nature. In listed or large companies,  
817 disclosure unimaginable in other categories of companies is implemented. The financial reporting culture in  
818 such large companies, often having a global impact, is not comparable to what is experienced daily in smaller  
819 companies.

820 It is always a mistake to make apodictic statements. To believe that public financial reporting can guarantee  
821 a complete, exhaustive and perfect analysis of a company's earnings-financial-equity situation would identify an  
822 incorrect peremptory position.

823 To think, however, that, on the contrary, considering especially non-multinational and not very large  
824 companies, financial reporting public and management reports can provide some aspects for correct, complete and  
825 exhaustive creditworthiness assessment seems even more misleading.. IV. The Financial Reporting of So-Called  
826 Small and Medium-sized Enterprises: Abbreviated Financial Reporting and other Disclosure Limits

827 The Italian Civil Code stipulates that so-called "small enterprises," understood according to the legal meaning  
828 governed by Article 24235 bis, can draw up a more concise financial reporting than that controlled by Articles  
829 2424, 2425, 2425 bis, and 2427 of the Civil Code.

830 In the specific case, in the legal context, companies are considered minor and medium-sized enterprises, which,  
831 not having issued securities traded on regulated markets in the first fiscal year or, subsequently, for two consecutive  
832 fiscal years, have not exceeded two of the following limits:

833 1. Total balance sheet assets: 4,400,000 euros; 2. Revenue from sales and services: 8,800,000 euros; 3.  
834 Employees employed on average during the fiscal year: 50.

835 The facilitation of financial reporting decades if companies, for the second consecutive fiscal year, have exceeded  
836 two of the limits specified in the first paragraph. Upon such a circumstance, it must prepare financial reporting  
837 in the ordinary form.

838 As is well known, the concept of small and medium-sized enterprises is not unambiguous. However, it is  
839 worth mentioning that the document issued in November 2012 by the National Council of Certified Public  
840 Accountants and Accounting Experts, entitled "The Preparation of Financial Reporting of Smaller Companies:  
841 Regulatory Provisions and Critical Issues," pointed out that the one hand, the preparation of simplified financial  
842 reporting is a critical issue for small companies and, on the other hand, smaller companies constitute the main  
843 economic-productive force at the national and European level, representing 99.9% of all companies operating in  
844 the European Union area, to touch 99.95 per cent of Italian companies.

845 Not all small and medium-sized enterprises, determined according to "economic-business" canons, fall into the  
846 category of companies governed by the 2435 bis civil code. Despite this, the quantitative limits identified by the  
847 civil law legislature are such that financial reporting is abbreviated widely.

848 There is nothing to prevent the preparer of the financial reporting abbreviated, according to "voluntaristic"  
849 criteria or to apply better the postulate of clarity imposed by art. 2423 c.c., from supplementing the minimal  
850 information set indicated by art. 2435 bis c.c. Companies that opt for financial reporting abbreviated, however,  
851 are unlikely to adopt communication strategies that differ from what the code requires. Those who perceive  
852 the need to provide the market with a broader disclosure than that governed by Article 2435 bis tend to opt

853 for "ordinary" financial reporting. Preparing financial reporting abridged form is, in fact, a voluntary choice of  
854 the company and not a legal obligation. Consequently, there is nothing to prevent a company, while having the  
855 option to prepare financial reporting in an abbreviated form, from opting for the full version of the balance sheet,  
856 profit and loss, report of the notes to financial statement the management report.

857 Companies that choose the abridged version of financial reporting tend, therefore, to apply what is identified  
858 in Article 2435 bis. However, there is no shortage of examples of companies that, although they have opted  
859 for abridged financial reporting, communicate externally additional information to what is required by statutory  
860 legislation.

861 The following simplifications mark abbreviated financial reporting: 1. The balance sheet includes only those  
862 items marked in Article 2424 with capital letters and Roman numerals; items may include A and D of assets  
863 in item CII; from items, BI and BII of assets, depreciation and amortization must be deducted in an explicit  
864 form; item E of liabilities may be included in item D; in items, CII of assets and D of liabilities, receivables and  
865 payables due beyond the next financial year must be shown separately.

866 Based on these indications, the condensed balance sheet takes the following structure: Based on the provisions  
867 of Article 2435 bis of the Civil Code, profit and loss can be abbreviated as follows:

868 Production value: Without prejudice to the indications required by the third, fourth and fifth paragraphs  
869 of Article 2423 ("If the information required by specific provisions of law is not sufficient to give a true and  
870 fair view, it shall provide additional information necessary for the purpose. ....No need to comply with the  
871 obligations on recognition, measurement, presentation and disclosure when compliance with them would have  
872 insignificant effects on giving a true and fair view. Obligations regarding the regular maintenance of accounting  
873 records remain unaffected. Companies shall explain in the report of the notes to financial statements the criteria  
874 by which they have implemented this provision. If, in exceptional cases, the application of a provision of the  
875 following articles is incompatible with true and fair representation, it shall not be the provision. The report  
876 of the notes to financial statements must give reasons for the exemption and indicate its influence on  
877 the representation of the financial position, financial position and results of operations. Any profits arising from  
878 the waiver must be entered in a non-distributable reserve except to the extent of the value recovered"; from  
879 the second, fifth and sixth paragraphs of Article 2423-ter (Items preceded by Arabic numerals may be further  
880 subdivided, without elimination of the overall item and the corresponding amount; they may be grouped only  
881 when the grouping, because of their amount, is irrelevant for the purposes indicated in the second paragraph of  
882 Article 2423 or when it promotes the clarity of the financial statements. In the latter case, the report of the notes  
883 to financial statements must contain the items subject to grouping separately.....; for each item of the balance  
884 sheet and profit and loss, it must indicate the amount of the corresponding item of the previous year. If the items  
885 are not comparable, those for the previous year must be adjusted; the non-comparability and the adjustment or  
886 impossibility thereof must be reported and commented on in the notes to the financial statements..... Matching  
887 offsets are prohibited. In those cases where offsetting is permitted by law, the gross amounts subject to offsetting  
888 shall be indicated in the report of the notes to the financial statement."), by the second paragraph of Article  
889 2424 ("If an item of assets or liabilities falls under more than one item of the schedule, in the report of the notes  
890 to financial statement shall be noted, if this is necessary for the understanding of the financial statements, that  
891 it also belongs to items other than the one under which it is entered.", from the first paragraph, numbers 4) (4)  
892 fixed assets consisting of equity investments in subsidiaries or associated companies may be valued, concerning  
893 one or more among said companies, instead of according to the criterion indicated in number 1), for an amount  
894 equal to the corresponding fraction of the shareholders' equity resulting from the last financial reporting of said  
895 companies, after deducting dividends and making the adjustments required by the principles of preparation of  
896 the consolidated financial reporting as well as those necessary for compliance with the regulations indicated in  
897 articles 2423 and 2423-bis.

898 When the equity investment is recorded for the first time under the equity method, the acquisition cost over  
899 the corresponding value of the equity reported on the date of acquisition or resulting from the latest financial  
900 reporting of the subsidiary or an associated company may be recorded as an asset, provided that the reasons  
901 for this are stated in the notes to the financial statements. To the extent attributable to depreciable assets or  
902 goodwill, the difference must be amortized.

903 In subsequent years, the capital gains resulting from the application of the equity method, compared to  
904 the value indicated in the financial reporting of the previous year, shall be recorded in a non-distributable  
905 reserve, and ( ??), ( ??) goodwill may be recorded as an asset with the consent, if any, of the Board of Statutory  
906 Auditors, if acquired for consideration, within the limits of the cost incurred for it. Goodwill is amortized over  
907 its useful life; in exceptional cases where it can reliably estimate its useful life, it is amortized over a period  
908 not exceeding ten years. In the report of the notes to the financial statement an explanation of the period  
909 of amortization of goodwill of Article 2426, the report of the notes to financial statement shall provide the  
910 information required by the first paragraph of Article 2427, numbers 1)( 1) the criteria applied in the valuation  
911 of items in the financial statements, in value adjustments and the conversion of values not initially expressed in  
912 a legal tender in the State; 2)( 2) the movements of fixed assets, specifying for each item: the cost; previous  
913 revaluations, depreciation and write-downs; acquisitions, transfers from one item to another, disposals occurred  
914 during the year; revaluations, depreciation and write-downs made during the year; total revaluations concerning  
915 fixed assets existing at the close of the fiscal year), 6)( 6) separately for each item, the amount of receivables

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916 and payables with a remaining term of more than five years, and payables backed by collateral on corporate  
917 assets, with specific indication of the nature of collateral and with specific breakdown according to geographical  
918 areas; )), for the latter limited only to debts without indication of geographic breakdown; 8)( 8) the amount  
919 of borrowing costs charged during the year to the values entered in the assets of the balance sheet, separately  
920 for each item;), 9)( 9) the total amount of commitments, guarantees and contingent liabilities not resulting  
921 from the balance sheet, with indication of the nature of collateral provided; existing commitments in respect  
922 of pensions and similar commitments, as well as commitments made to subsidiaries, affiliates, as well as parent  
923 companies and companies controlled by the latter shall be disclosed separately; ), 13)( ??3) the amount and  
924 nature of individual items of income or expense of exceptional magnitude or incidence; )), 15)( ??5) the average  
925 number of employees, broken down by category)for the latter also omitting the breakdown by category, 16)  
926 16) the amount of remuneration, advances and credits granted to directors and auditors, cumulatively for each  
927 category, specifying the interest rate, the main conditions and any amounts repaid, cancelled or waived, as well  
928 as the commitments made on their behalf as a result of guarantees of any kind given, specifying the total for  
929 each category ; )), 22-bis)( 22-bis) the transactions carried out with related parties, specifying the amount,  
930 the nature of the relationship and any other information necessary for the understanding of financial reporting  
931 relating to such transactions, if the same have not been concluded at normal market conditions. Information  
932 relating to individual transactions may be aggregated according to their nature, except when their separate  
933 disclosure is necessary for understanding the effects of such transactions on the company's financial position and  
934 results of operations;)), 22-ter) the nature and economic purpose of agreements not shown on the balance sheet,  
935 with an indication of their effect on the company's financial position, financial position and results of operations,  
936 provided that the risks and rewards arising from that place are significant and the disclosure of the same is  
937 necessary for assessing the company's financial position and results of operations for the latter also omitting  
938 the indications regarding the equity, financial and economic effects, 22quarter), 22-sexies)), for the latter also  
939 omitting the indication of the place where the copy of the financial reporting consolidated is available, as well as  
940 by the first paragraph of Article 2427-bis, number 1).

941 Companies may limit the disclosures required under Article 2427, first paragraph, number 22-bis to transactions  
942 carried out directly or indirectly with their major shareholders and those with members of the management and  
943 control bodies, and limit the disclosures required under Article 2427, first paragraph, number 22-ter to the nature  
944 and economic purpose.

945 The number and par value of both treasury shares and shares or quotas of parent companies purchased or  
946 disposed of by the company, during the fiscal year, including through trust companies or intermediaries, with an  
947 indication of the corresponding portion of capital, the consideration and the reasons for purchases and disposals.  
948 4) If the companies specified in the first paragraph provide in the report of the notes to financial statements the  
949 information required by numbers 3) and 4) of Article 2428, they are exempt from preparing the management  
950 report. Small and medium-sized enterprises, falling within the range provided for in the Civil Code, are, therefore,  
951 not required to prepare the report on management if, in the notes to the financial statements, the number and par  
952 value of both the company's shares and the shares or quotas of parent companies held by the company, including  
953 through trust companies or intermediaries, are indicated, with an indication of the corresponding portion of  
954 capital.

955 The structure of abbreviated financial reporting governed by Article 24235 bis of the Civil Code makes this  
956 document unsuitable for developing a meaningful income-equity-financial analysis. Faced with a sufficiently  
957 analytical profit-and-loss, companies that opt for the abbreviated financial reporting may draw up a balance  
958 sheet that, due to its extreme conciseness, does not offer the necessary information cues so that a severe in-depth  
959 analysis of the company's situation can be carried out.

960 In fact, should the financial reporting abbreviated be prepared according to the provisions of Article 24235  
961 bis, in addition to the information absent in the financial reporting ordinarily highlighted in the previous pages,  
962 the following data would also be missing:

963 1. Breakdown, based on the principle of liquidity/expendability, of each asset and liability item 2. Information  
964 about the amount of receivables from shareholders for payments still due 3. Composition of fixed assets ( intangible,  
965 tangible and financial) and current assets (inventories, receivables, current financial assets and cash  
966 and cash equivalents) 4. Composition of total payables 5. Composition of total provisions for risks and charges 6.  
967 News about any significant events, which occurred after the closing of the accounts that could affect, in a material  
968 way, the assessment of creditworthiness because, potentially, they may have radically changed the final situation  
969 reflected in the financial reporting of the closing financial year 7. Foreseeable developments in operations.

970 Earlier it was pointed out that, to conduct a financial statement analysis, financial reporting values must be  
971 reaggregated to determine certain vital quotients to deepen the company's situation.

972 For the reasons already fully explained, the aggregates and ratios on which we have focused our attention are  
973 as follows:

974 Aggregations:

975 1. Short-term assets 2. Short-term liabilities 3. Long-term assets 4. Long-term liabilities 5. Net worth 6.  
976 Income from the conduct of the enterprise's ordinary activities 7. Operating income.

---

## 977 6 Ratios:

978 1. Current ratio 2. Quick ratio 3. Debt ratio 4. ROE 5. ROI 6. ROA 7. ROS.

979 In the preceding paragraph, we have pointed out how, in the presence of financial reporting civil drawn up  
980 in ordinary form, some of the essential information to determine the ratios listed above does not allow their  
981 objective determination.

982 To complete the analysis of the informational limitations of financial reporting published in the corporate  
983 registry office, it is necessary to understand whether, in the presence of financial reporting abbreviated, the  
984 rules characterizing financial reporting ordinarily are subject to such an amplification that a severe and complete  
985 analysis of the accounting data is not feasible.

986 To this end, it can be stated that in the hypothesis that the financial reporting object of analysis is the  
987 abridged one prepared according to Article 2435 bis of the Civil Code, the aggregates and indicators considered  
988 above are marked by the following characteristics. 1. Short-term assets: not determinable unless assumptions  
989 are made that are so subjective as to make the aggregate insignificant 2. Short-term liabilities: not determinable  
990 unless assumptions are made that are so subjective as to make the aggregate nonsignificant 3. Long-term assets:  
991 not determinable unless assumptions are made that are so subjective as to make the aggregate nonsignificant  
992 4. Long-term liabilities: not determinable unless assumptions are made that are so subjective as to make the  
993 aggregate nonsignificant 5. Net worth: not determinable unless assumptions are made that are so subjective as  
994 to make the aggregate nonsignificant 6. Income from the performance of the firm's characteristic activities: not  
995 determinable unless assumptions are made that are so subjective as to make the aggregate nonsignificant

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997 Volume XXII Issue VIII Version I Year 2022 ( ) A 7. Operating income: not determinable unless assumptions  
998 are made that are so subjective as to make the aggregate insignificant.

999 1) Current ratio à: not determinable unless assumptions are made that are so subjective as to make the  
1000 quotient nonsignificant 2) Quick ratio: not determinable unless assumptions are made that are so subjective  
1001 as to make the ratio nonsignificant 3) Debt ratio: not determinable unless assumptions are made that are so  
1002 subjective as to make the quotient nonsignificant 4) ROE: not determinable unless assumptions are made that  
1003 are so subjective as to make the quotient nonsignificant 5) ROI: not determinable unless assumptions are made  
1004 that are so subjective as to make the quotient nonsignificant 6) ROA: not determinable unless assumptions are  
1005 made that are so subjective as to make the quotient nonsignificant 7) ROS: not determinable unless assumptions  
1006 are made that are so subjective as to make the quotient nonsignificant From this, it follows that the degree of  
1007 reliability of the ratios identified above is as follows:

1008 As pointed out earlier, it is up to each company to supplement the minimal disclosure governed by Article  
1009 2435a with the revelation of non-mandatory data. The closer the abbreviated financial reporting comes to the  
1010 ordinary structure, the more significant the reduction of the limits univocally connected to the summary structure  
1011 will be.

1012 Even if the financial reporting from outside the company is prepared in an ordinary form, the analysis conducted  
1013 from outside the company will be marked by the insurmountable limits illustrated in the preceding pages.

1014 Only the company's practical cooperation can ensure that the analysis carried out on its accounting data is  
1015 complete, exhaustive and, above all, meaningful insofar as it adheres to the reality it intends to investigate.

1016 In assessing creditworthiness, financial reporting analysis assumes a key role so that the lender understands the  
1017 "real" income-financial-equity situation of the loan applicant. For this to occur, however, the financial reporting  
1018 data must be intended for third parties outside the company. Be supplemented by a range of information held only  
1019 by the company's internal managers. Conducting financial reporting analyses based exclusively on the content  
1020 of public documents can lead to results that are perfectly consistent with the investigated business reality. Due  
1021 to the informational deficiencies of statutory financial reporting, it is equally possible that the results of the  
1022 accounting investigation are not meaningful and, therefore, misleading. As has already been pointed out, the  
1023 irresolvable problem is related to the impossibility of assessing in which situation the financial reporting analysis  
1024 carried out on mere public data falls.

## 1025 8 V.

1026 Corporate Financial Dynamics Analysis as the Cornerstone of Creditworthiness Analysis: Financial Dynamics  
1027 as a Complementary Element to Static Analysis

1028 As is well known, in financial reporting, equity and financial "stock" values referring to a precise instant are  
1029 contrasted with income "flow" data whose determination implies the analysis of a period. In this sense, operating  
1030 income represents a "flow value" whose dynamicity is relative since it is determined only by the presence, in  
1031 profit and loss, of nonpoint values.

1032 "Income dynamism" should not, however, be confused with "financial dynamism," the analysis of which,  
1033 transcending the static view crystallized in the values recorded in the balance sheet, is capable of capturing the  
1034 interweaving of flows of a monetaryfinancial nature that, incessantly, are created and consumed in the flow of  
1035 business management.

1036 Therefore, the deepening of the "dynamics" of accounting values is marked by a dual representation. Against  
1037 an analysis of negative and positive components-flows of income, it must implement an 'investigation of a financial  
1038 nature.

1039 As is the case with the income analysis, the investigation of financial dynamics cannot be implemented through  
1040 the mere consideration of balance sheet and profit-and-loss values, especially when aggregated according to  
1041 statutory logic. Integrating financial reporting findings with information that cannot be drawn from balance  
1042 sheets, and financial and income accounting data identifies a necessary operation to conduct the determination  
1043 and interpretation of flows correctly and profitably.

1044 Dynamic analysis by flows constitutes a fundamental cognitive element in assessing creditworthiness.

1045 The amendment principle of the new standard OIC 10 Tthe Cash Flow Statement emphasizes, in this regard,  
1046 that the informational benefits of the cash flow statement, i.e., the document that summarizes all flows created  
1047 and consumed by the company's operations, are multiple in that this statement makes it possible to assess:

1048 1. The cash generated/absorbed by the income operation and how it is used/covered; 2. The ability of the  
1049 company or group to meet shortterm financial commitments;

1050 3. and the power of the company or group to finance itself, Shareholders, workers, customers, and lenders  
1051 are interested in understanding whether the company can produce monetary-financial flows such that dividends  
1052 are paid, salaries are paid, and debts are settled regularly. For these reasons, each of the above categories is  
1053 interested in investigating the cash flow statement.

1054 The creditworthiness assessment identifies the study of the flows generated and consumed by management  
1055 as the pivotal element in understanding whether lending represents a viable and profitable avenue or, on the  
1056 contrary, identifies a dangerous operation that is a harbinger of potential default.

1057 The assessment of creditworthiness can never, therefore, disregard the analysis of cash flows.

1058 To understand the complexity of studying the financial dynamics of an enterprise, it is necessary, first of all,  
1059 to differentiate between two concepts:

1060 1. Cash flows understood in a broad sense (i.e., including values related to payables and receivables); 2. and  
1061 monetary cash flows.

1062 Understanding the divergences between these concepts is crucial to avoid dangerous misunderstandings.

1063 In the various doctrinal theorizing concerning financial statement analysis, there is often a lack of formal and  
1064 substantive integration, which, on the contrary, should be considered a fundamental element of any accounting  
1065 investigation. As we have already needed to point out, attributing similar meanings to different concepts or,  
1066 on the contrary, other acronyms to values that are, essentially, identical creates an environment conducive to  
1067 making decisions that are inconsistent with the "real" business situation that, when such conditions occur, is  
1068 poorly represented by information systems lacking essential and fundamental congruity between the constituent  
1069 parts.

1070 The integrated information system of analysis, ensuring complete integration, vertical and horizontal, among  
1071 all elements that make up the complex structure of production/communication of values, does not present the  
1072 above operational problems.

1073 In such a system, the concept "financial" is, as far as possible, linked to credit, debit and/or liquidity  
1074 relationships.

1075 The phrase "liquidity," on the other hand, refers only to items subject to monetization. This makes the concept  
1076 of liquidity part of the broader notion of a "financial" relationship.

1077 Given this juxtaposition, it can be understood how cash flows, understood in a broad sense, include accounting  
1078 elements related to the arising of debts and credits, as well as impacting liquidity. While monetary liquidity flows  
1079 analyze only the values that directly change the amounts present in the cash and bank.

1080 If the focus is on financial flows understood broader than monetary flows, it must choose the "dimension" to  
1081 be investigated. Generally, when one intends to verify the intertwining of flows created by management in terms  
1082 other than cash, the reference value is the so-called characteristic net working capital. Since working capital is  
1083 derived from the juxtaposition of short-term assets and liabilities, characteristic (or typical) net working capital  
1084 (henceforth CNWC) strips this aggregate of items not about the company's characteristic activities. Leaving  
1085 aside the critical accounting issues related to this aggregate, it can be said that, in simplified form, Characteristic  
1086 net working capital (henceforth CNWC) is formed by the algebraic sum of cash and bank assets, trade receivables,  
1087 inventories, and accounts payable. Any value affecting at least one of these accounting items identifies a CNWC  
1088 cash flow.

1089 At the state of the art, doctrine and practice believe, almost unanimously, that the only useful analysis to  
1090 investigate the financial dynamics of companies is that conducted in terms of liquidity.

1091 Liquidity flows represent an indispensable element of information since, to understand the overall financial  
1092 situation of companies, it is essential to supplement punctual data referring to precise instants with information  
1093 concerning events that occurred between those moments. In other words, comparing the situation existing as  
1094 of 12/31 for a plurality of fiscal years allows the trend of accounting data to be traced. But such an analysis,  
1095 nothing says about what occurred within each administrative period. For example, consider the assumption that  
1096 two given values are identical at 12/31/n and 12/31/n+1. The trend shows a perfectly constant pattern. This,  
1097 however, does not imply a denial that the value that is the subject of interest during the year n+1 may have  
1098 undergone profound changes that led, at 12/31/n+1, to the determination of a value equal to that present in the

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1099 accounts at 12/31/n. This information limit is all the more relevant the longer the duration of the period under  
1100 consideration (fiscal year, bimonthly, quarter, semester, month, week, day).

1101 From the above, it can be understood how a time limitation of the period considered can, albeit in reduced  
1102 terms, circumscribe the overhead information obstacle.

1103 In the face of such a possibility that indirectly makes it possible to reduce the information gap related to the  
1104 trend analysis of financial ratios, there is, however, a limitation that cannot overcome since it is intrinsic to the  
1105 ratios themselves. Even if the financial study were conducted in a systematic, systematic, and integrated manner,  
1106 only employing ratios or other static aggregates, the results associated with such in-depth analysis could never  
1107 be considered complete, exhaustive, and reliable.

1108 All this assumes particular relevance in assessing the creditworthiness of companies.

1109 Suppose lenders and accounting investigations were implemented only using static indices and aggregates. In  
1110 that case, the possibility of lending to unworthy firms or denying credit to firms with perfect financial and income  
1111 balances appears very high.

1112 For example, consider the scenario where the loan applicant is a service enterprise lacking inventory and  
1113 uncharacteristic investments. In such a context, the ratio that contrasts short-term assets with short-term  
1114 liabilities (availability ratio) shows an ideal financial situation if it falls within the range of 1 to 1.5. Assume that,  
1115 in the enterprise analyzed, this quotient is 1.5 and offers a constant trend over time. Assume, for simplicity, that  
1116 the short-term assets consist of inventory and customers and that the liabilities identify the annual portion of a  
1117 loan. Based on this information, it could argue that the availability ratio's value represents a solid assurance of  
1118 an excellent short-term financial position.

1119 Let us now assume that we supplement the above with the information that, in the following period, the  
1120 firm believes that it will liquidate its short-term assets and that it will have a single additional relevant income  
1121 corresponding to obtaining a new mortgage against outlays related to the payment of short-term liabilities and  
1122 wages.

1123 It is evident how such information calls into question the apparent financial balance that could have been  
1124 assumed by considering the mere availability ratio.

1125 In fact, in the face of a harmony of the static values recorded at the time of closing the accounts, if a company  
1126 is forced to take out a bank loan (an income that, by definition, is occasional, i.e., non-recurring within each  
1127 financial year) to cope with recurring outgoings for payment of salaries and annual instalments of financial loans,  
1128 it is not possible to consider that there is an overall financial balance.

1129 This consideration sheds new light on the interpretation of ratios. Although implemented systemically and  
1130 systematically, the analysis by quotients does not allow for studying the type of business income and expenditures.

1131 As already noted, this limitation cannot be overcome in the context of analysis by ratios since it is an intrinsic  
1132 element of such instruments. The financial quotient is, in fact, static and devoid of informative elements regarding  
1133 the characteristics of income and expenditure related to the period under consideration. The index analysis is,  
1134 therefore, limited and deficient in itself and, as such, needs to be supplemented by further insights into financial  
1135 dynamics.

1136 Leaving aside any technical considerations about the difficulties an analyst encounters in determining cash  
1137 flows, it is possible to state that only a balance between recurring sources (i.e., revenues that recur over time)  
1138 and recurring needs (i.e., nonoccasional outgoings) ensures financial soundness for the company.

1139 In fact, in the presence of recurrent needs financed by occasional sources, the enterprise cannot be said to be  
1140 financially balanced.

1141 On the occurrence of the opposite hypothesis (financing occasional needs with sources of a recurring nature),  
1142 financial balance is transformed, on the other hand, into a situation of superior stability. Using sources that are  
1143 bound to recur periodically over time to meet occasional outlays represents, in fact, the achievement of maximum  
1144 dynamic financial soundness.

1145 Also, in this context, as highlighted in index analysis, the correct interpretation of data requires the cooperation  
1146 of the company under investigation.

1147 By way of example, consider dividend distributions or severance payments. Generally, these items are deemed  
1148 recurring because it is assumed, on the one hand, that the allocation of dividends, tends to be constant over time  
1149 to avoid negative impacts on the ownership structure and, on the other hand, that the physiological turnover of  
1150 workers, causes a substantial repetitiveness of the payment of severance pay liabilities. However, there is nothing  
1151 to prevent that, within a given enterprise, such items should be considered occasional. This may occur, for  
1152 example, in small-to medium-sized enterprises in which there is extremely low worker turnover and in which the  
1153 distribution of dividends represents an event of an occasional nature as a result of the need for reinvestment of  
1154 profits in the company. Upon the occurrence of these specific assumptions, the requirements, from potentially  
1155 recurring, would become occasional. Specific information regarding certain peculiarities of the enterprises can,  
1156 as a result, cause the judgment to veer from positive to negative or vice versa.

1157 Therefore, in this case, as with ratios, the interpretation of data is facilitated by the possession of a complete  
1158 information set concerning the company that must be provided voluntarily by the company itself.

1159 In conclusion, it is worth noting that, at the state of the art, doctrine and practice unanimously hold that  
1160 cash flows are more significant than cash flows expressed in characteristic net working capital. As we have  
1161 already needed to point out, the latter flows include every transaction that, directly or indirectly, has impacted

## 9 VI. ALTERNATIVE FORMS OF CASH FLOW

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1162 at least one item constituting this capital (cash bank, customers, inventory, suppliers). Characteristic revenues,  
1163 for example, generate a CNWC cash flow equal to their total amount. This income component can be subject  
1164 to immediate collection or deferred collection. Since cash and accounts receivable are part of CNWC, revenue  
1165 generates a total flow equal to its amount. To understand the informational insignificance of the flow expressed in  
1166 terms of CNWC, imagine that a firm, during year N, carried out only two transactions: sales for 1,000: deferred  
1167 receipt 990, ready cash 10; raw material purchases for 300: deferred payment 10; cash balance 290.

1168 Given these figures, if focused attention on CNWC's cash flows, the company could be considered to have a  
1169 perfectly balanced financial situation. Against a recurring source of 1000 (10 collected, 990 deferred), there is, in  
1170 fact, a recurring requirement of 300 (of which 290 is paid in cash). According to a broad financial view, expressed  
1171 in terms of CNWC, the credit rating should be positive.

1172 The reality is, however, quite different. While it is true that the broad conception of the locution "CNWC  
1173 financial flow, at least in theory, has its *raison d'être*, there is no doubt that the result of such an analysis has  
1174 no utility in assessing the ability of a company to meet, regularly, the payment of its debts.

1175 Despite the presence of a recurring financial source (1000) significantly higher than the needs of a similar  
1176 nature (300), the company shows, in reality, a clear economic imbalance understood in the strict sense, that is,  
1177 expressed in monetary terms, since, a recurring liquid income of 10 contrasts with a recurring liquid expenditure  
1178 of 290.

1179 In the standard OIC 12 Composition and financial reporting formats of mercantile, industrial and service  
1180 enterprises, issued in 2005, while recognizing cash flows as having a greater signalling capacity of the financial  
1181 situation, it was pointed out how the statement expressed in terms of CNWC continued to retain its validity.  
1182 In the past, while highlighting the greater significance of monetary flows, it was still considered valid also to  
1183 determine CNWC flows. Instead, the later version of standard 12 OIC highlights the need to determine only  
1184 cash flows and not CNWC flows since they lack real significance-.

1185 On the other hand, the current situation sees doctrine and practice converging toward a specific position  
1186 that considers working capital flows an element devoid of any interest. Even the principle OIC 10 IL cash flow  
1187 statement highlights how cash flows represent an increase or decrease in the amount of cash and cash equivalents.  
1188 This statement, which echoes what is stated in IAS 7 Statement of Cash Flows ("cash flows are inflows and  
1189 outflows of cash and cash equivalents"), identifies, in cash flows, the only changes worthy of recognition and  
1190 disclosure.

1191 According to the view prevailing today, flows expressed in terms of characteristic net working capital are not  
1192 counted among the valuable financial information to internal managers and users outside companies.

## 1193 9 VI. Alternative Forms of Cash Flow

1194 Statement: from the Lacunae of the Civil Code to Doctrinal and OIC/IAS-IFRS Guidance

1195 Even though cash flows (understood in a sense and/or expressed in terms of liquidity) represent a fundamental  
1196 cognitive element for anyone interested in assessing the financial situation of a company, civil law merely mandates  
1197 the preparation of the cash flow statement as the fourth part of financial reporting. Still, it does not illustrate  
1198 particular ways of structuring the report, except to point out that the results of operating and investing must  
1199 indicate financing activities. The code, therefore, as required by existing regulations in Italy, regarding the  
1200 peculiarities of the substance and form of the statement refers to the principles issued by the Italian Accounting  
1201 Board, which, with principle No. 10, The cash flow statement, explains, in a very analytical manner, how this  
1202 document should be prepared.

1203 If the imposition of the cash flow statement in Italy is relatively recent, the international situation is different.

1204 Quite a different situation is found, in fact, in the IAS/IFRS international accounting standards. Indeed, IAS  
1205 1 Presentation of Financial Statements states that "a complete set of financial statements comprises:

1206 1. A statement of financial position as of the end of the period; 2. A statement of profit or loss and other  
1207 comprehensive income for the period; 3. A statement of changes in equity for the period; 4. A statement of cash  
1208 flows for the period; 5. Notes, comprising a summary of significant accounting policies and other explanatory  
1209 information; 5.1 Comparative information in respect of the preceding period as specified in paragraphs 38 and  
1210 38A; and 6. A statement of financial position as at the beginning of the preceding period when an entity applies  
1211 an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or  
1212 when it reclassifies items in its financial statements..."

1213 From this, it can be deduced that, unlike what is indicated by the OIC standards, the IAS/IFRS considers the  
1214 cash flow statement to be a mandatory part of the company's disclosures intended for an external business. The  
1215 principle is also underscored in the Conceptual Framework for Financial Reporting, where in § OB20 Financial  
1216 performance reflected by past cash flows it points out that "information about a reporting entity's cash flows  
1217 during a period also helps users to assess the entity's ability to generate future net cash

1218 Financial Reporting Destined to External Third Parties as a Tool for Analyzing Credit Worthiness:

1219 inflows. It indicates how the reporting entity obtains and spends cash, including information about its  
1220 borrowing and repayment of the debt, cash dividends or other cash distributions to investors, and other factors  
1221 that may affect the entity's liquidity or solvency. Information about cash flows helps users understand a reporting  
1222 entity's operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret  
1223 other information about financial performance." Companies that, even in the absence of a regulatory requirement,

1224 wish to supplement their external reporting by disclosing the cash flow statement may disclose this data by opting  
1225 for the formal structure that, in their sole opinion, best illustrates the intertwining of financial needs and sources.  
1226 Those preparing the statement can choose from three alternatives: Any other company, without any constraint  
1227 or limitation, may, on the other hand, refer to any formal structure.

1228 The IAS 7 Statement of Cash Flows and the OIC 10 standard, The Cash Flow Statement, identify the  
1229 theoretical bases that must be applied when determining flows without imposing specific formal reporting formats.

1230 The IAS 7 Statement of Cash Flows and the OIC 10 the Preparation of the Cash Flow Statement present a  
1231 partial overlap in that the objective of the OIC document is to introduce, as much as possible, in the national  
1232 context what is established by the international standards. Despite some differentiations, the similarity of the  
1233 primary logical scheme of the two standards is, in fact, evident.

1234 In summary terms, IAS 7 Statement of Cash Flows requires that, in the statement of cash flows, cash flows  
1235 be presented, and divided between operating, investing and financial management.

1236 IAS Standard No. 7 specifies the above concepts and explains their contents as follows:

1237 Operating management Cash flows generated by operating management are derived from the main revenue-  
1238 generating activities of the enterprise. Therefore, they are usually derived from the other facts and transactions  
1239 involved in determining profit or loss for the year. Examples of cash flows from operations are:

1240 1. Receipts from the sale of products from the provision of services;  
1241 2. Collections from royalties, fees, commissions and other income; 3. Payments to suppliers of goods and  
1242 services; 4. Payments to and on behalf of employees; 5. Collections and payments from an insurance company  
1243 for premiums and claims, annuities, and other benefits under the policy; 6. Payments or refunds of income taxes-  
1244 unless they can be made explicitly under financial and investment management; 7. Collections and payments  
1245 arising from contracts entered into for commercial trading purposes.

1246 Certain transactions, such as selling an item or plant, may give rise to gains or losses that should include  
1247 recognition of profit (loss) for the year. Cash flows related to such transactions are cash flows from investing  
1248 activities. However, cash flows from operating activities are cash payments to produce or acquire assets held for  
1249 lease to others and subsequently held for sale as described in paragraph 68th of IAS 16 Property, Plant, and  
1250 Equipment. Receipts from leases and subsequent sales of such assets are also cash flows from operating activities.

1251 IAS 7 also points out that an entity may hold securities and loans for trading or trading purposes; in this case,  
1252 they are treated as inventories purchased specifically for resale. Therefore, cash flows from the purchase and  
1253 sale of securities held for trading or trading purposes are part of operating activities. Similarly, cash advances  
1254 and loans from financial institutions are usually classified as operating activities since they relate to the entity's  
1255 principal revenuegenerating activity.

## 1256 **10 Investment management**

1257 Distinguishing information about cash flows from investment management is essential because these amounts  
1258 represent a measure of costs incurred to acquire resources intended to produce future income and cash flows.  
1259 Examples of cash flows arising from investing activities are:

## 1260 **11 Financial management**

1261 Separate disclosure of cash flows from financial management is crucial as it is essential in forecasting demands on  
1262 future cash flows from those who provide capital to the enterprise. Examples of cash flows arising from financial  
1263 management are:

1264 1. Cash receipts from the issuance of shares or other equity securities; 2. Payments to shareholders to acquire  
1265 or release the company's shares; 3. Collections from the issuance of bonds, loans, notes, fixed-income securities,  
1266 mortgages, and other short-term or long-term loans; 4. Loan repayments; 5. Payments by the lessee to reduce  
1267 existing liabilities related to a finance lease. The OIC 10 principle the cash flow statement, in a partially similar  
1268 way, considers that the cash flow statement, cash flows should be recognized and aggregated according to the  
1269 following logic:

## 1270 **12 Operations management**

1271 Cash flows from operations management, referred to as income management in an early version of the document,  
1272 generally include flows that arise from the acquisition, production and distribution of goods and the provision  
1273 of services and other flows not contained in investing and financing activities. Some examples of cash flows  
1274 generated or absorbed by so-called operations reported in the OIC 10 standard are:

1275 -Cash receipts from the sale of products and the provision of services; -Receipts from royalties, commissions,  
1276 fees, insurance reimbursements and other revenues; -Payments for the purchase of raw materials, semifinished  
1277 products, goods and other inputs -Production factors; -Payments for the acquisition of services; -Payments to and  
1278 on behalf of employees; -Payments and refunds of taxes; -Payments for financial charges; -Receipts for financial  
1279 income.

## 1280 **13 Investing activities**

1281 Cash flows from investing activities include: ? Purchasing and selling property.

## 16 VII. VALUTAZIONE DEL MERITO DI

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### 1282 14 94

1283 ? Plant and equipment.

1284 ? Intangible assets.

1285 ? Financial assets are not held as fixed assets. By way of example, the cash flows generated or absorbed by  
1286 investing activities disclosed in principle OIC 10 arise from:

1287 -Purchases or sales of buildings, plant, equipment or other tangible assets (including tangible assets of internal  
1288 construction); -Purchases or sales of intangible assets, such as patents, trademarks, and concessions; these  
1289 payments also include those relating to capitalized deferred charges; -Acquisitions or disposals of investments  
1290 in subsidiaries and affiliates; -Acquisitions or disposals of other equity investments; -Acquisitions or disposals of  
1291 other securities, including government securities and bonds; -Disburse advances and loans made to third parties  
1292 and collections for repayment.

### 1293 15 Financing activities

1294 Cash flows from financing activities include flows that result from obtaining or returning cash from venture capital  
1295 or debt capital.

1296 By way of example, according to OIC Principle 10, cash flows generated or absorbed by financing activities  
1297 financing are:

1298 -Cash receipts from the issuance of shares or units representing risk capital; -Payment of dividends; -Payments  
1299 for the repayment of risk capital, including in the form of the purchase of treasury shares; -Collections or  
1300 payments arising from the issuance or repayment of bonds, fixed-income securities, bills of exchange, taking  
1301 out or repayment of mortgages and other short-term or long-term loans; -Increase or decrease in other debts,  
1302 including short or medium-term debts of a financial nature. At the end of this brief examination of the guidance  
1303 provided to prepare the cash flow statement, companies may opt for a reporting structure proposed by doctrine  
1304 in the absence of precise legal regulations.

1305 In this regard, scholars have proposed a plurality of reference schemes. In the opinion of the writer, the formal  
1306 structure with the most significant informative value is the statement submitted within the integrated information  
1307 system because, unlike other schemes, this document, on the one hand, is an integral part of a coherent and  
1308 integrated system, vertically and horizontally, with every other accounting helpful tool for business analysis and  
1309 planning (e.g., reclassifications, ratios, financial and income aggregates, analytical values of product/area/sector,  
1310 etc.) and, on the other hand, provides a piece of clear and intelligible information set on cash flows even to subjects  
1311 who are not exceptionally expert. This is not the appropriate place to illustrate all the positions scholars take  
1312 regarding the formal drafting of the statement.

1313 It is relevant to point out that any structure proposed by any author does not identify "The cash flow statement"  
1314 but merely identifies one of the many structural forms such a document can take. And it is precisely for this reason  
1315 that accounting standards, national and international, rather than identifying a structured formal scheme, have  
1316 found it more appropriate to limit themselves to illustrating the principles that must underlie the preparation of  
1317 such a document.

1318 On the other hand, the formal scheme proposed under the integrated information system has a predefined  
1319 structure in that it identifies one part of a more extensive set of elements that must be marked by perfect  
1320 consistency and integration at the legal and substantive levels. Hence the need to indicate a binding structure  
1321 that, in the writer's opinion, succeeds in communicating valuable information to the user that other schemes do  
1322 not provide for dissemination.

### 1323 16 VII. Valutazione Del Merito di

1324 Credito Delle Aziende: Cash Flow Statement vs. Mera Determinazione Del Cash Flow

1325 As pointed out in the previous pages, the assessment of creditworthiness cannot be separated from the analysis  
1326 of cash flows.

1327 In this regard, however, the question must ask whether the determination of the so-called cash flow can identify  
1328 sufficient information elements to make a valid judgment on the dynamic financial situation of a company. The  
1329 determination of this aggregate represents, in fact, very often the only component that companies provide to those  
1330 who request quantitative determinations about the cash flows produced/consumed in a given financial year.

1331 First, it should point out that this locution does not have an unambiguous meaning. In contrast to those who  
1332 interpret cash flow in terms of the cash flow

1333 Characteristic cash flow understood in the broad financial sense (or financial cash flow expressed in terms of  
1334 CNWC) 1750

1335 Financial cash flow, understood in a broad sense (or cash flow of CNWC), represents a flow that includes, in  
1336 itself, also the share of cost and revenue related to receivables and payables. This cash flow, in the broad sense,  
1337 amounts to 1,750. To understand the monetary impact of this flow, it is necessary to consider net working capital.  
1338 Net working capital is like a sponge immersed in liquid: if the sponge increases in volume, it has absorbed the  
1339 liquid. If the sponge is "squeezed," it decreases in volume because it releases liquid. In technical terms, corporate  
1340 liquidity (cash and bank) is the above liquid. Therefore, if net working capital increases, liquidity has been

1341 drained, while if it decreases, it implies liquidity has been created. The more significant the increase in net  
1342 working capital, the smaller the flow expressed in terms of liquidity.

1343 Therefore, if cash flow is 1750 and net working capital has increased by 250, it means that liquidity of 250  
1344 has been drained. The cash flow (or characteristic monetary cash flow) is less than the financial cash flow by an  
1345 amount equal to 250. And, the monetary cash flow (which can also be calculated simply by contrasting monetary  
1346 costs (i.e., that we paid = 1000) vs monetary revenues (i.e., that we collected= 2500)) amounts to 1500.

1347 The characteristic monetary cash flow can, therefore, be represented as follows.

1348 Accounting items Amounti Core revenues including sales and service revenues 2800 Closing inventories 100  
1349 Characteristic costs includingpurchase of rawmaterials, wages, contributions, purchase of services, consulting,  
1350 commissions, miscellaneousoperating costs (1100) (Opening inventories)

1351 Characteristic cash flow understoodin abroadfinancialsense 1750? CNWC(**250**)

1352 Cash flow characteristicmonetary 1.500

1353 Characteristic monetary cash flow is derived from the logical summation of the portion of characteristic  
1354 revenues collected and the amount of typical costs subject to prompt cash payment. It can also quantify  
1355 characteristic monetary cash flow without the prior determination of financial cash flow broadly. For this reason,  
1356 it can also determine cash flow from the performance of the typical business activity in the following technical  
1357 manner:

## 1358 17 Accounting post Importo

1359 Core revenues comprising sales and service revenues collected on a prompt cash basis 2500\* \*thisamountisderived  
1360 from the contrastbetween total revenue (2800) and ? customers (300), the increase of whichidentifies a deferred  
1361 payment granted to customers Characteristic costs comprisingpurchase of rawmaterials, wages, contributions,  
1362 purchase of services, consulting, commissions, miscellaneousoperating costs paid for on a cash basis (1000)\*\*  
1363 \*\*thisamountisderived from the contrastbetween total costs (1100) and ? suppliers (100) whoseincreaseidentifies  
1364 a deferred payment obtained from suppliers Characteristic cash flow 1500

1365 As pointed out in the previous pages, the doctrine and accounting standards focus unanimously on cash flows.  
1366 In contrast to those who prefer to highlight financial cash flow understood in a broad sense and ? CNWC, some  
1367 favour the determination of cash flow by contrasting "monetary" costs and revenues (i.e., the shares of positive  
1368 and negative income components that impact cash/bank). Regardless of the chosen solution, there is no doubt  
1369 that the ultimate goal is consistently identified in determining cash flow.

1370 In conclusion of these brief methodological remarks regarding the quantitative calculation of the characteristic  
1371 cash flow, it seems appropriate to mention that it can determine this value by applying two different logical,  
1372 quantitative methodologies: direct or indirect.

1373 Direct determination involves contrasting characteristic "monetary" costs and revenues (i.e., the shares of  
1374 positive and negative income components that impacted cash/banking), with or without the "intermediation" of  
1375 financial cash flow and ? CNWC. The numerical examples above illustrate the direct calculation of cash flow.

1376 Against this technique, there is the indirect determination of the aggregate that is the subject of interest.  
1377 In this case, cash flow is derived from the summation of profit, and all costs and revenues that are non-cash  
1378 by definition (such as depreciation and amortization, allowances for provisions, etc.) and are not part of core  
1379 business (such, for example, finance charges, tax costs, capital gains, etc.).

1380 In the above example, the indirect determination of cash flow would result from the following summation:

## 1381 18 Posta contabile Importo

1382 Utile di esercizio 850 + ammortamenti 400 + TRF e acc.tia fondi rischi e oneri futuri 300 + oneri finanziari 200  
1383 Cash flow caratteristico in senso finanziario 1750 +/-? CNWC

1384 Cash flow monetario caratteristico 1500

1385 In the writer's opinion, the direct calculation methodology is preferable because it is immediately understand-  
1386 able. The indirect calculation, on the other hand, while achieving the same accounting result, may appear difficult  
1387 to interpret because it derives a monetary value from the summation of data that, by definition, do not represent  
1388 liquid values.

1389 After this brief methodological analysis, it is necessary to understand whether knowledge of the characteristic  
1390 monetary cash flow is sufficient in the context of creditworthiness assessment or whether, on the contrary, full  
1391 reporting is required.

1392 The cash flow resulting from the performance of typical activities (or characteristic monetary cash flow) is  
1393 an indispensable element of knowledge for those who must assess a company's financial situation. Indeed, this  
1394 aggregate highlights, in a dynamic sense, the liquid source that should identify the primary "source" of liquidity.

1395 Therefore, creditworthiness assessment is strongly influenced by knowledge of this value. Since civil regulations  
1396 do not require the disclosure of such a figure, it seems relevant to understand whether it can determine such an  
1397 aggregate based on the indications in the financial reporting published at the business registry office.

1398 One of the most significant obstacles that an external operator encounters in determining characteristic  
1399 monetary cash flow is related to the impossibility, already noted in the preceding pages, of identifying typical  
1400 costs and revenues. Indeed, the conformation of profit and loss governed by Article 2425 of the Civil Code does

## 19 AN ANALYSIS OF THE STATEMENT SHOWS THAT:

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1401 not allow the identification of such items. Determining such flow on the exclusive basis of publicly disclosed data  
1402 appears, therefore, a complicated operation unless one opts for very obvious simplifications (such as, for example,  
1403 the inclusion in the characteristic cash flow of any ordinary capital gains, ordinary capital losses, rental income,  
1404 ordinary contingencies, etc.). For this reason, the calculation of the above flow should be facilitated by the direct  
1405 cooperation of the enterprise under analysis.

1406 Even if the analyst does not attach particular importance to the characteristic monetary cash flow and opts  
1407 for the sole determination of the cash flow from income management, as identified by IAS 7 or OIC 10, they  
1408 would encounter the same obstacles mentioned above.

1409 As is the case with ratios, the determination of cash flow calculated based on financial reporting published  
1410 values may be perfectly true, just as it is possible, on the contrary, to contain matters that do not pertain to  
1411 the calculation in question. Unfortunately, even in this case, the external operator cannot assess the degree of  
1412 correctness/accuracy of the quantitative determination of the flow determined based on mere financial reporting  
1413 intended for third parties external to the enterprises.

1414 Beyond the considerations regarding the difficulty an outside operator encounters in calculating cash flow or  
1415 earnings management flow and imagining that companies voluntarily provide such an aggregate, the question  
1416 must ask whether knowledge of this aggregate can replace the requirement to prepare the complete statement.

1417 The answer is negative because, although it may give the characteristic monetary cash flow essential relevance,  
1418 dynamic financial analysis requires the judgment of the company's situation based on verifying the balance  
1419 between sources and recurrent needs. Only a thoughtful balance between income and expenditure that tend to  
1420 recur periodically in the business environment can ensure financial stability for the enterprise.

1421 Knowledge of the mere monetary characteristic of cash flow does not allow such an analysis. It is conceivable  
1422 that, even with a significant cash flow, the financial dynamics show a set of recurring needs (e.g., taxes, finance  
1423 charges, payment of severance pay, repayment of financial loan instalments, etc.) such as to make the above  
1424 aggregate, insufficient to guarantee balance and solidity to the company.

1425 Such a situation would be created even if the external operator owns only the flow deriving from income  
1426 management (as per IAS 7 and principle ??IC 10). In this case, since some recurring values are included in  
1427 determining the flow, the abovementioned problem might be less disruptive. Unfortunately, however, even in this  
1428 hypothesis, the mere knowledge of this flow would not allow, in any case, to judge the enterprise's ability to meet  
1429 recurrent needs with sources marked by similar time characteristics.

1430 The assessment of creditworthiness, therefore, inescapably requires the analysis of the complete statement  
1431 referring to the period under investigation.

1432 It is unnecessary to dwell on this to understand how those outside the companies prevent the drafting of such a  
1433 document. Regardless of the formal structure chosen, the statement's drafting requires knowledge of information  
1434 known only to corporate management.

1435 Even in this case, it is not possible to rule out the possibility that an external party would be able to draw up  
1436 a complete statement since; theoretically, it is conceivable that, for example, the report of the notes to financial  
1437 statements the management report would contain a range of information, provided for in the code, that would  
1438 allow the determination of all cash flows.

1439 If it could prepare such a statement based on the data that can be drawn from the published financial  
1440 reporting publicly available, there would be no need to question whether the report should be compulsorily  
1441 prepared/disseminated. Such a consideration reflects mere wishful thinking, far from the practice followed by  
1442 companies. And this is evidenced, quite clearly, precisely by the doctrinal and legal debate concerning the  
1443 advisability of including the statement among the documents with compulsory dissemination.

1444 Therefore, the assessment of creditworthiness cannot disregard the requirement of drafting the cash flow  
1445 statement, otherwise is the possibility of making wrong decisions regarding the company's ability to repay its  
1446 debts regularly.

1447 In conclusion, it seems appropriate to emphasize that the assessment of creditworthiness implemented based  
1448 on mere actual values identifies a hazardous operation. These planned values need to be set out in the general  
1449 business budget to place the analyst in a position to determine prospective ratios and flows. Indeed, the prospects  
1450 of the company appear to be a fundamental element of knowledge so that the decisions of potential and/or existing  
1451 lenders are harmonious concerning the actual conditions of the companies being evaluated.

1452 To understand the relevance of the cash flow statement in the context of creditworthiness assessment, assume  
1453 that a firm, at the request of lenders, in year N, provides an income and equity budget for year N+1, which shows  
1454 an excellent static income and financial situation: An asterisk has been affixed to recurring needs and sources to  
1455 facilitate the interpretation of the data.Economic

## 1456 19 An analysis of the statement shows that:

1457 1. The characteristic monetary cash flow, which should represent the recurring source par excellence, causes,  
1458 on the contrary, a need; 2. Total recurring requirements are 6,278 (not including requirements from typical  
1459 operations) against frequent sources, amounting to 300.

1460 As can be seen, the company does not produce a positive cash flow. The flow produced by the typical  
1461 management, instead of bringing liquidity to the company, drains cash flow abundantly.

1462 It is clear how, in the presence of a negative cash flow, the recurring sources are considerably, less than the  
1463 non-occurring needs. This circumstance points to a significant dynamic financial imbalance.

1464 Pivotal to the assessment of creditworthiness is the analysis of the company's ability to pay its debts regularly.  
1465 The lack of characteristic incoming cash flow and the significant excess of recurring requirements over the amount  
1466 of sources of a similar nature identify two pieces of information that should cast doubt on the existence of an  
1467 absolute financial equilibrium.

1468 Any judgement pronounced without carrying out an accurate analysis of the cash flow statement can, therefore,  
1469 potentially lead to erroneous assessments of companies' 'real' creditworthiness since what the flows show cannot  
1470 be extrapolated from any other information tool.

1471 Analyses developed only through ratios, or other static aggregates are harbingers of possible significant  
1472 problems. In this case, too, as is the case with the static analysis of financial reporting published at the company  
1473 registry office, the greatest interpretative obstacle is the impossibility of assessing the degree of reliability of the  
1474 valuations made in the absence of precise information on the company's financial dynamics VIII.

## 1475 **20 Conclusions**

1476 From what has been said above, it is clear that it must verify the assessment of a company's creditworthiness  
1477 through an in-depth analysis of the entire financial report for the year and any statements that may be  
1478 complementary to it, such as in Italy, the management report, i.e. the report that, although not part of the  
1479 financial reporting, can provide beneficial information on the company's income, equity, financial and action  
1480 situation in the context of sustainability. The analysis of the balance sheet of the profit and loss of the cash  
1481 flow statement of the report of the notes to financial statement represents, however, the focus of the in-depth  
1482 analysis by a lender wishing to assess a company's creditworthiness. As we have been able to highlight in the  
1483 preceding pages, the financial report destined externally is often characterised by information limits deriving from  
1484 a problem of company privacy point the structure of the financial report destined externally has, in fact been  
1485 studied at least in Italy, but this is the case in all European countries, to provide information that is comparable  
1486 between the various countries belonging to Europe or countries that intend to use international standards. The  
1487 objective is not to offer every neolithic and peculiar information on the company's situation as this would go  
1488 against the interest of the company, which, necessarily, must be considered as a subject characterised by the right  
1489 not to disclose information of a strategic or other nature that could negatively affect its management due to the  
1490 disclosure of information to competitors, customers and suppliers. Static analysis through ratios and dynamic  
1491 analysis through flows may be prevented by the structure of the externally-directed financial report precisely  
1492 because of the lack of such information. In this case, assessing the creditworthiness of a company becomes very  
1493 difficult. Suppose the company does not provide the lender or bank with further details. In that case, it is  
1494 often impossible to comprehensively analyse the company's situation. Therefore it is almost impossible to make  
1495 a meaningful judgement on a company's creditworthiness based solely on the data in the externally-directed  
1496 financial report. This is all the more true if one considers that in Italy and most other countries, there are for  
1497 small and medium-sized companies financial reporting structures that are short and therefore characterised by a  
1498 reduction of information to be disseminated to third parties outside the company. For micro-enterprises, i.e. tiny  
1499 enterprises, the problem of external communication does not even arise because financial reporting contains so  
1500 little information that it cannot at least be considered an instrument for communicating financial assets to the  
1501 outside world. It will therefore be up to the borrower to decide whether or not to formally tell the potential lender  
1502 the information that supplements the information gleaned from the financial reporting destined by law to third  
1503 parties outside the company. In the absence of such information, the lender will probably have severe difficulties  
1504 in assessing the company's creditworthiness and comma in this case, the denial of the loan itself will be high eh  
1505 probable to conclude this summary on analysis that the reality is not doctrinal in which everything is decided  
1506 based on the results of financial reporting, but often, loans are only provided in the presence of collateral, real  
1507 or personal comma that the recipient can give point. It can also happen that such guarantees are not requested;  
1508 for example, it is unnecessary to ask for guarantees for start-ups or companies that show such a development. In  
percentage terms, it can say that this happens in about 5% of cases of bank loans. <sup>1 2</sup>

1509  
Figure 1:

<sup>1</sup>To facilitate reading, I have decided not to include in the text, except in exceptional cases, the names of the scholars who have dealt with the subject under analysis since the bibliography is endless, I have opted not to indicate all the terms of the scholars in the text because this would have meant a continuous interruption of the reading of the complete sentence in which I express my thought.

<sup>2</sup>© 2022 Global Journals

## 20 CONCLUSIONS

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Operations Description	Needs	Sources
Cash flow from carrying out characteristic activities (characteristic cash flow)		
Long-term tangible and intangible asset management		
Financial management		
Severance management		
Asset management		
Provision management		
Non-characteristic management by definition		
Tax management		
Net worth management and dividends		
Delta cash and bank Against such a scheme, it can identify many other equally appreciable technical structures proposed by the doctrine.		

Figure 2:

---

Posta contabile	Importo
Characteristic revenues including sales and service revenues*	*non importa se oggetto di incasso 2800 immediato o dilazionato in quanto entrambi i valori (cassa e clienti) sono compresi nel CNWC
Inventories 31/12	100
Characteristic costs including purchase of rawmaterials, wages, contributions, purchase of services, consulting, commissions, miscellaneous operating costs** (Inventories 1/1)	(1100)*non importa se oggetto di pagamento immediato o dilazionato in quanto entrambi i valori (cassa e fornitori) sono compresi nel CNWC

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Figure 3:

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	Needs	sources
CASH FLOW OF CHARACTERISTIC BUSINESS MANAGEMENT (OR CASH FLOW IN STRICT SENSE)	502	
LONG TERM TANGIBLE AND INTANGIBLE ASSET MANAGEMENT		
purchase of plant *purchase of buildings	5600	
	3000	
FINANCIAL MANAGEMENT		
obtaining bank loan		
obtaining new loan		
annualloanrepayment *repayment of short-termdebt	1728*	9659
financialcharges	300*	12.085
	3000*	
ASSET MANAGEMENT		
purchase of securities		
purchase of participations	12000	
receipt of interestincome	1000	200*
collection of dividends		100*
MANAGEMENT OF NON-TAX EXPENSE PROVISIONS AND RISK PROVISIONS		
TAX MANAGEMENT		
tax payment	700*	
NON-CHARACTERISTIC MANAGEMENT BY DEFINITION		
SEVERANCE PAY MANAGEMENT * payment of severancepay	50*	
EQUITY MANAGEMENT AND DIVIDENDS		
share capital increase		
dividenddistribution	500*	6336
? CASH AND ACTIVE BANK		
TOTAL	28380	28380
Sales revenues	18.400	
Total characteristic revenues	18.400	
Depreciation and amortization	530	
Opening inventoriesfinishedgoods	400	
Wages and contributions	1.600	
Trade costs	280	
Depreciation costs	1.300	
Ind.costs	4.500	
Miscellaneouscharacteristic costs	1.500	
severancepay	160	
Rawmaterialpurchases	6.193	

Figure 4:

## **.1 By way of example, consider the following example:**

---

1510 produced by typical operations, some attribute to this aggregate a broader financial sense that, often, converges  
1511 toward a conception of flow that, although produced by characteristic activity, is expressed in terms of net  
1512 working capital. Those who interpret cash flow in a broader sense tend to make, however, a second technical  
1513 step to highlight, in addition to the aggregate thus determined, the cash flow coming from the performance of  
1514 the company's typical activity.

### **1515 .1 By way of example, consider the following example:**

1516 Characteristic short-term assets and liabilities: \*Characteristic operating expenses and revenues may be  
1517 paid/collected in year n+1, or they may be, in part, paid/contained in year n+1, and the amount be subject  
1518 to deferred payment/collection. To understand, with reference, for example, to sales revenue, how much has  
1519 been collected and how much has been deferred to customers, it is sufficient to look at the difference between  
1520 customers at 12/31/n and customers at 12/31/n+1. In our example, customers increased by 300, which means  
1521 that, for 300, it did not collect the revenue recognized in profit and loss. The total revenues then (2,800) can be  
1522 conceptually divided into revenues collected for 2,500 and revenues subject to a deferral for 300(i.e., revenues that  
1523 only generated a credit but no cash receipts). This concept also applies, of course, to suppliers. Using the same  
1524 reasoning, we can say that characteristic costs for the purchase of raw materials, wages, contributions, purchase  
1525 of services, consulting, commissions, and miscellaneous operating expenses were paid in cash in the amount of  
1526 1,000 while in the amount of 100 they were subject to deferred payment (i.e., a debt arose but no impact on  
1527 money) \*\* non-cash costs identify costs arising from year-end valuations. These costs are charged on an accrual  
1528 basis and have no impact on cash, the bank. They are just "scriptural" accounting items with no financial impact  
1529 whatsoever (neither in the broad sense self in terms of liquidity).

1530 Poiché il capitale circolante netto caratteristico identifica la variazione derivante dalla sommatoria algebrica  
1531 dell'attivo e passivo a breve caratteristico, in base ai dati sopra esposti, il CNWC ammonta a: As can be seen,  
1532 the CNWC increased by 250. It will explain the significance of this change in the following pages.

1533 In operational terms, the financial characteristic cash flow broadly understood, that is, interpreted as the  
1534 algebraic sum of typical expenses and revenues that impacted net working capital, amounts to: Based on the  
1535 indices mentioned above, one could erroneously assume the existence of an ideal prospective situation in terms of  
1536 income and finance (naturally within the limit that the analysis of a single financial year can allow). Particularly  
1537 exceptional values mark ROI and ROE, and the two ratios of availability and indebtedness show an extraordinarily  
1538 stable and balanced financial situation, both short-term and overall. To express an opinion on creditworthiness,  
1539 however, it is also necessary to analyse the cash flow statement to verify the balance between needs and recurring  
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## **.1 By way of example, consider the following example:**

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