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1 Does the Formal Structure of the Cash Flow Statement have an
2 Impact on the Understanding of the Data Contained in the
3 Report Explaining the Company's Financial Dynamics?

4 Prof. Maria Silvia Avi

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7 **Abstract**

8 The financial analysis of a company, implemented through ratios alone, can lead to making
9 completely erroneous judgements about the dynamic development of the company's income
10 and expenditure. For this reason, cash flows and the statement that summarises them
11 represent essential elements of the study of the company's financial performance. Various
12 international bodies have addressed this issue since, in most countries, the cash flow statement
13 now identifies one of the elements that make up the financial reporting for the year, on par
14 with the balance sheet and profit and loss. Here we will take a closer look at the central
15 bodies that have addressed this issue and illustrate what has been said about cash flow and
16 the cash flow statement by the American FASB, the IASB, the Italian Civil Code and the
17 Italian Accounting Standards Board. As you will see, all of these bodies propose structures or
18 examples of items requiring the highlighting and re-grouping of needs and sources into three
19 aggregates: operating activities, investing activities and financing activities. Subsequently, we
20 will point out that information limitations characterise these statements. Therefore we will
21 propose drafting a report structured according to the logic of an integrated information
22 system, i.e. a system in which all the documents forming part of financial reporting and
23 management control are consistent at a substantial and formal level and, therefore, at the
24 level of the terminology used.

25

26 **Index terms**— cash flow Statement, cash flow, net working capital, cash flow, formal structure of the cash
27 flow

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46 I. The Financial Dynamics of Business: Introductory Considerations 1 company's financial and asset analysis
47 requires the performance of two complementary types of research that complement each other.

48 Absolute values lose their informative weight if not compared with related amounts. For this reason, the
49 integrated analysis system is implemented partly through indicators that compare corresponding data. In the
50 first instance, it is advisable 1 to identify ratios determined based on the balance sheet results (and sometimes
51 some profit and loss figures).

52 We have already pointed out how a clear-cut distinction between financial and income analysis makes no sense
53 since every financial reporting figure is interrelated with every other value in that document. The difference
54 between financial/equity analysis and the study of corporate profitability is, in reality, a necessary didactic
55 exemplification to explain the unique tools used in the integrated analysis system. The precise understanding of
56 the company's situation, therefore, requires that, in the light of the explanations below concerning the individual
57 ratios/flows/aggregates, the analyst can give a global picture of the company's conditions which, necessarily,
58 must be implemented through the communication of the inter-connections that can be identified between the
59 indicators and aggregates used to carry out the study on financial reporting and to lay the foundations for
60 company planning.

61 For the reasons mentioned above, it is not even possible to subdivide, in a precise manner, the financial ratios
62 from the so-called asset ratios. Therefore, we will speak of financial/asset analysis to highlight, from a purely
63 terminological point of view, how separating the two types of research is impossible.

64 The study of financial/equity conditions must, subsequently, be analysed in the light of the so-called income
65 ratios, which, due to the intrinsic connections with financial reporting data, cannot but have connotations of a
66 financial nature.

67 2 A

68 In the following pages, therefore, for the sake of mere clarity of communication, the two analysesfinancial and
69 income -will be dealt with in two separate paragraphs, in the complete and absolute awareness that the complex
70 analysis tool considered herein envisages a systemic interpretation of each index/flow/aggregate output of the
71 information process.

72 In light of these considerations, and with the limitations illustrated above, it can state that it must implement
73 corporate financial/equity analysis by determining and interpreting two sets of tools that necessarily complement
74 each other. The calculation of a group of financial/equity ratios must be followed by the identification of cash
75 flows, which will discuss in more detail in the next section. The ratios provide the static situation since they refer
76 to a given instant. At the same time, the flows highlight functional elements of dynamic analysis, i.e. concerning
77 a period, variously identified according to the information needs of company management.

78 Financial analysis employing indices takes s. from the following consideration: income and expenditure, as
79 well as assets of use and source, characterised by similar features, must be balanced. Based on this simple
80 consideration, indicators can be identified that, synthetically, can provide interpretative elements regarding the
81 financial/asset structure of the company.

82 To avoid errors of "interpretative decoding" of the ratios, it is preferred not to subdivide them by "area".
83 One often reads of the division between ratios analysing the short term, the long term, etc.. Such segmentation
84 can, however, be dangerous as it limits the interpretation of the quotient. The writer, therefore, prefers to
85 limit himself to listing the leading indicators of a financial/asset nature, illustrating, in an analytical manner,
86 for each index, the formula, the method of determination, the managerial usefulness in the context of static
87 financial/asset analysis, the logic of construction and the meaning of the quotient, and any reference parameters
88 helpful in understanding the presence of imbalances between uses and sources.

89 As noted above, each consideration reported on the indices must be supplemented and completed by a series
90 of reflections on the dynamic financial situation, which, through the determination of particular flows, aims to
91 deepen the balance/unbalance relations between income and expenditure referring to a given period. Therefore,
92 the indicators set out below must be interpreted simultaneously as the analysis tools discussed in the next section.
93 Only in this way can the study of the financial situation be said to be complete and exhaustive.

94 The most commonly used financial ratios for understanding a company's financial situation are as follows:
95 ? Current ratio ? quick ratio ? -coverage ratio of long-term assets ? -coverage ratio of long-term assets with
96 internal sources of wealth ? -ratios of composition of invested capital ? -source composition ratios ? -degree
97 of asset depreciation ? -ratio of wealth creation and maintenance capacity ? -debt ratio ? -ratio of intensity
98 of short-term bank financing ? -ratio of overall financing intensity ? -ratio of gross income coverage capacity ?
99 -ratio of capacity of capital to create cash flow ? -ratios of financial sustainability of growth ? -ratio of average
100 duration loans ? -ratio of average duration of debts

101 In conclusion, it should note a critical consideration concerning the correct interpretation of ratios. It must
102 contextualise each of the observations below within the specific financial reporting under study. Therefore, it
103 may happen, in particular, that it cannot share the meditation points reported in this paper concerning specific
104 business realities.

105 Reference will be made, for example, to the case in which a ratio turns out to be "off the mark". The light of
106 the following pages shows that the situation is not balanced. However, it could happen that the value of the ratio
107 is not significant due to the presence of an 'extraordinary' item in financial reporting. Let us assume, for example,
108 that for the day of 31 December alone, there is an abnormal amount in the bank account, an amount that, after
109 a couple of days, is duly invested in highly profitable forms of capital. The analysis of the financial reporting
110 data, closed on 31 December, shows, as is evident, an abnormal situation and, consequently, any observations on
111 the indices determined based on these accounting values must be contextualised and must take into account the
112 particular condition that has arisen, accounting-wise, on the day the accounts were closed. One possibility to
113 curb these situations could be calculating average values that reflect the problem, not on a specific day, but rather
114 an 'average' across several accounting data. Some authors suggest always calculating the average between the
115 values of the first day of the financial year and the accounting data on the last day of the administrative period.
116 In reality, such a calculation does not solve the problem. To have a meaningful figure, one should identify an
117 average that considers the monthly values. Such a determination, however, requires the preparation of a balance
118 sheet (and, for some indices, a profit and loss) at the end of each month. In the writer's opinion, drawing up
119 such a document is, if not impossible, extremely difficult. Therefore, the correct approach is the 'contextualised'
120 interpretation of the indicators: those analysing the data must be aware of whether the values contained therein
121 are significant. Suppose some values contained in balance sheets are "extraordinary" or "transitory". In that
122 case, the analyst must highlight this situation and, necessarily, be able to express a judgement on the basis,
123 simultaneously, of the analysis of the "abnormal" punctual data and of the values that, after a few days, those
124 accounts take on.

125 As we have highlighted in the preceding pages, indices identify indispensable tools for the financial analysis
126 of a company. Such an in-depth analysis cannot be carried out without a prior comparison of the items and
127 aggregates of the balance sheet (and, in some cases, of the profit and loss) since only such an operation can make
128 it possible to understand the existence or absence of balance between items distinguished by similar characteristics
129 (of maturity, of structure, etc.).

130 Therefore, the financial reporting quotient represents a highly relevant analysis tool, as it disregards the
131 absolute value of accounts to focus attention on aspects of relativity.

132 The preceding pages also emphasised that it is indispensable to implement an integrated analysis system, as
133 the interpretation of individual quotients can be limited and misleading. Furthermore, it must be emphasised
134 how the various ratios must often be investigated in light of several considerations that cannot be derived directly
135 from the balance sheet and profit-and-loss accounting values.

136 However, it must be pointed out that, in reality, carrying out a complete analysis of the company's financial
137 situation requires, in addition to the instruments indicated above, other means of in-depth accounting. Let
138 us suppose, for example, that we wish to carry out an analysis by indexes, systematic and characterised by
139 the simultaneous consideration of all the elements of helpful knowledge for the interpretation of the quotients
140 themselves. One must ask oneself the following: does compliance with the three conditions mentioned
141 above (implementation of a systematic, systematic analysis, supplemented by the in-depth consideration of
142 extrafinancial reporting considerations) make the results of the financial study complete, exhaustive and reliable?

143 The answer is no. To demonstrate this, consider this simple example:

144 Let us assume that a company is characterised by a current ratio demonstrating financial strength. Let us
145 imagine that its value, referring to the end of a given year, is 1.5 and let us assume that, compared to previous
146 years, there is a constant trend or one characterised by small changes in the range between 1.3 and 1.5. The latter
147 circumstance demonstrates perfect short-term financial equilibrium. Suppose the analysis was to end with an
148 in-depth examination of this ratio and other financial ratios. In that case, one could conclude that the company
149 is characterised by a short-term financial solidity that does not create any particular problems or shows an ideal
150 financial situation. However, stopping at analysing a ratio of several financial ratios would be a grave mistake
151 because the apparent financial equilibrium established by the ratios could hide a dynamic imbalance that the
152 ratios, precisely because of their structural characteristics, could never show. Let us suppose that we analyse the
153 company's next year's data and learn that the financial and, therefore, in our context, monetary revenues expected
154 for the following year derive from obtaining a loan from a financial institution. Assume that future expenditures,
155 on the other hand, arise from the ordinary course of the company's core business and thus relate to the purchase
156 and subsequent payment of wages, purchase of raw materials and amount of utilities. Since the objective of this
157 example is merely to highlight the limitations of indices, the items considered here as requirements and monetary
158 sources are limited to facilitate the understanding of the concept being illustrated. Against this background, the
159 balance shown by the current ratio appears decidedly overstated concerning an overall judgement of the company's
160 financial situation. In the following period, the consideration of the type of income and expenditure tarnishes
161 the importance of the above ratio and sheds new light on the interpretation of ratios. Ratios analysis, even if
162 it is carried out systematically and systematically, cannot allow in-depth consideration of the monetary income
163 and expenditure that the enterprise has had or will have in the future. This is not because the financial ratio is
164 incorrectly calculated. Still, because the ratio is in itself static and therefore lacking in information concerning
165 income and expenditure, it is the quality and characteristics of the latter that have occurred or will occur in the
166 period under consideration. These considerations do not make it possible to develop a dynamic financial and
167 monetary analysis using the ratios tool, whose objective is the quantitative and qualitative deepening of financial

168 and monetary sources and requirements. Considering these considerations, one can understand how the ratios
169 analysis must be deepened by another tool that identifies the company's financial and monetary income and
170 expenditure. Only in this way can the financial analysis be considered complete.

171 These considerations allow us to state that, to express an opinion on a company's financial situation,
172 the analysis by indexes must necessarily be supplemented by a qualitative comparison between income and
173 expenditure. It can only implement the qualitative analysis of income and spending through the use of an
174 accounting tool that, on the one hand, identifies all needs and all sources and, on the other hand, allows an
175 in-depth qualitative analysis of the items thus specified. This analysis is implemented through financial flows.

176 In synthetic terms, it is possible to state that the objective of financial flows is twofold:

177 1. Identification of all financial income and expenditure; 2. Comparison between recurrent income
178 and expenditure and, by residue, between non-recurrent (occasional) income and non-recurrent (occasional)
179 expenditure.

180 The following pages will emphasise that the concept of income and expenditure is not unambiguous. If inflows
181 and outflows focus on the need or source expressed in monetary terms, the flows can be defined as liquidity or,
182 alternatively, cash flows.

183 However, it is possible to interpret the concept of need or source in a broader sense. In this case, need and
184 source include cash inflows and outflows and the idea of the emergence and extinction of debits and credits. If
185 this concept is adopted, it can be understood that income and expenditure are no longer expressed in monetary
186 terms but rather in financial terms. In this case, flows are referred to as 'financial in the broad sense'. Within this
187 category of flows, various notions of debits and credits can be identified and referred to. As you will understand
188 from reading the following pages, the financial flows belonging to the latter category, which are helpful for analysis
189 purposes, focus on movements in net working capital. For this reason, this tool is referred to as analysis by flows
190 expressed in terms of net working capital. The reader is referred to the following pages for a more detailed
191 discussion of the various types of flows and the actual use of the individual tools.

192 In the preceding pages, it has been shown how, to implement a financial analysis, it is necessary to develop an
193 in-depth analysis of cash flows. The ultimate objective of this analysis technique is the qualitative comparison
194 of recurrent income vs recurrent expenditure and non-recurrent income vs occasional spending. Moreover, it
195 can only achieve financial equilibrium if recurring income exceeds recurring payment. It must consider the more
196 significant the difference between the two aggregates, the more solid the enterprise's financial balance. If resorting
197 to an occasional source to meet an equally occasional requirement is a sign of good financial equilibrium, it is
198 undoubtedly a sign of perfect financial stability to be able to cover an occasional need with a source that can be
199 relied upon periodically over time. To make this concept easily understandable, think, for example, of the case
200 in which an individual managed to buy his own house, not with a mortgage, but with his regular income from
201 his salary. It is evident how this situation represents the perfect financial equilibrium since, when this hypothesis
202 occurs, the recurrent source not only manages to cover recurrent needs but even contributes to covering needs of
203 a merely occasional nature.

204 Therefore, the flow objective is to identify all income and expenditures to subject them to qualitative
205 monitoring. As will be seen when reading the following pages, while interpreting results is straightforward,
206 calculating cash flows appears to be arduous. The focus will therefore be on how the cash flows are calculated,
207 as the interpretation poses no particular problems. Since this section is intended to determine cash flows, it will
208 restrict the notions of requirement and source to a purely monetary concept. Therefore, when reference is made
209 to a requirement, it will implicitly mean a liquid requirement, i.e. a cash requirement and an active bank.

210 Conversely, when reference is made to a source, it will implicitly mean a source expressed in monetary terms of
211 cash and active bank. Regarding the use of flows, it should note that doctrine, practice, and finally, accounting
212 standards agree that it is more beneficial to analyse cash flows than other flows. The analysis of cash flows,
213 e.g. of working capital, is no longer considered particularly significant for analysing the financial situation since
214 financial equilibrium can conceal a profound monetary imbalance. This is why cash flows represent the most
215 widely used dynamic analysis tool at the operational level and are most studied in theoretical terms.

216 It is evident that flows do not relate to an instant, like indices, but consider a period. This is why flows are
217 defined as dynamic, as opposed to indices, which are interpreted as static elements of analysis. It should note
218 that the period taken into consideration may be the financial year, the month, the week or even the day. We will
219 return to the respect of the most suitable period in the following pages.

220 Analysing the above cases, one can see that examples have developed that cover every accounting event of
221 financial reporting: ?an increase in activity; ?a decrease in assets; ?an increase in liaoilities; ?a decrease in
222 liaoilities; ?an increase in equity; ?A decrease in net assets; ?a cost; ?and finally, revenue.

223 Generalising the above examples, it can be said that: ?an increase in an asset corresponds to a requirement;
224 ?a decrease in an asset corresponds to a source; ?an increase in liaoilities corresponds to a source; ?a decrease in
225 a liaoility corresponds to a requirement; ?an increase in an equity item corresponds to a source; ?a decrease in
226 an equity item corresponds to a requirement; ?a cost corresponds to a requirement: ?and a revenue corresponds
227 to a source.

228 At this point, one must ask whether the values thus determined to identify real income or expenditure flows,
229 i.e. actual cash flows. In reality, even from a very superficial analysis, one can see that the simple rules identified
230 above do not allow the identification of correct cash flows. As an example, it is sufficient to consider the case of

231 an increase in assets. Suppose the land increases from 100 to 160. According to the rule identified above, it would
232 have to be said that a cash flow requirement has occurred for this increase. Considering the business reality,
233 however, one might find this is false. Take, for example, the case where the rise in land depends on a shareholder
234 contribution or the point where the increase in the value of the longterm asset results from a mere revaluation.
235 Or, again, the rise in land is connected with a purchase in which the debt has not yet been settled. In all these
236 cases, the increase in land value is not matched by any actual cash flow. For this reason, we can state that the
237 needs and sources illustrated above only and exclusively identify mere apparent flows, that is, values that only
238 apparently create a need or a reference but which, on analysis of the facts, may conceal transactions that do not
239 affect cash and which, consequently, do not create actual flows. Based on these considerations, we can identify
240 the following automatic rule: the accounting change in values only provides evidence of apparent flows, which,
241 however, do not always turn into actual cash flows.

242 Therefore, the analyst's task is to move from determining simple apparent flows to identifying more complex
243 actual cash flows.

244 The calculation of actual cash flows requires the performance of two steps: Eliminate all apparent needs and
245 sources that have no impact on cash. It is evident that if an obvious flow identifies a mere accounting change that
246 did not have a corresponding cash flow, it is necessary to eliminate the amount as having no monetary significance
247 Separation of so-called 'sum flows': two actual cash flows of opposite signs often correspond to an apparent flow.
248 Consider, for example, the case where land increases in value. Let us also assume that the increase is connected
249 with a movement characterised by a cash impact. The increase in the value of the land may correspond to a
250 purchase equal to the difference in the initial final deal or to an annuity occurring at the same time as a purchase.
251 If this second hypothesis appears, the natural flow is not one but twofold. Thus, an increase in land value would
252 have to be matched by an authentic source equal to the value received due to the sale and a real need equivalent
253 to the purchase of new land. The separation of the sum transactions is highly relevant because only by identifying
254 the real market and the actual source in separate motion is it possible to identify the actual cash flows occurring
255 in the period under consideration.

256 Based on the above considerations, it can be understood how the determination of cash flows goes through
257 the preparation of a worksheet in which all asset, liability and equity items are to be recorded. The analysis of
258 the cash impact of the various accounting differences corresponding to the individual financial reporting items
259 will determine the actual cash flows.

260 However, a problem arises at this point. Within equity, there is, in fact, an item which, by definition, represents
261 the most concise sum value of financial reporting. We intend to refer here to operating income. Profit or loss
262 is derived from the sum of all costs and income occurring over time. It is evident that should the worksheet
263 drawn up to determine the flows show the summary of payment and money outflows for the year, it would not
264 be possible to identify the flows constituting the sum of the same profit/loss for the year.

265 For this reason, in the worksheet, to determine the analytical cash flows, it is necessary to report the amounts
266 of all payments and outflows instead of the value of the income and costs for the period considered by the flow
267 analysis. It is evident that since the cash flow analysis considers a specific financial year, the substitution between
268 income and the list of costs and revenues must relate exclusively to the financial year under consideration and
269 research. Needless to point out, on the other hand, it should not break the previous year's result down as it
270 represents, in the following year, a unitary value that identifies a real need for cash only for the amount equal to
271 any dividends distributed a natural source if the shareholders cover the loss with liquid funds.

272 The technique for determining flows is based on the two simple rules of conduct identified above. The great
273 difficulty in calculating flows arises from eliminating all movements that did not create flow. The separation of
274 the sum transactions represents accounting operations that often require highly complex reasoning.

275 After finishing the worksheet, it is necessary to move on to interpreting the data obtained. Understanding the
276 dynamic financial situation requires that the values of flows identified using worksheets or other accounting tools
277 be correlated to highlight the presence of balance or imbalance between items that must interpret simultaneously.
278 To achieve this, a summary document must be drawn up. Since, often, those analysing the data do not have
279 specific technical skills in accounting, it is necessary to draw up a document that simultaneously achieves two
280 objectives 1. Summary of the results obtained within the worksheet; 2. Illustration of the results through a
281 document that can be understood even by a non-accounting expert.

282 The two objectives mentioned above are achieved through drafting the so-called cash flow statement. This
283 document summarises the flows while explaining the results clearly and understandably to everyone.

284 An analysis of national and international accounting doctrine and standards shows that many different
285 reporting formats exist. Therefore, the statement's drafting is left to the analyst, who must opt for a clear,
286 understandable form and accepted by most scholars and economic operators. It must make a chIAO (Italian
287 Accounting Organism (Henceforth IAO, in Italian language OIC)) based on the theoretical and practical
288 considerations that each analyst develops in the context of financial reporting analysis. The objective of
289 reporting, regardless of the technical format used, is to 'bring all flows concerning homogeneous transactions
290 into a meaningful aggregate. In this sense, the company's operations are broken down into several homogeneous
291 operations. The diversity of the various schemes found in doctrine and accounting standards is expressed in the
292 different identification of significant sub-aggregates. In other words, company management is subdivided into
293 aggregates identified according to different logics in the various schemes.

294 Let's compare the formal structures proposed by the IAS i/IFRS international standards, and the Italian
295 national accounting standards IAO (ITALIAN ACCOUNTING ORGANISM (HENCEFORTH IAO, IN ITALIAN
296 LANGUAGE OIC)). The American accounting standards document 95/ASC 230 and the national or international
297 doctrine; we can see how the schemes show profound diversifications at the level of form. It must well highlight the
298 circumstance and that, in the face of different schemes, one finds identical flow values only represented differently
299 and aggregated according to different logics.

300 In the following pages, we will make a brief analysis of the schemes proposed by the leading national and
301 international bodies, and we can already anticipate that these schemes do not provide important information
302 that is instead required both to manage the company and to understand, from the outside, the dynamic financial
303 situation of the company itself ap. At this point, one must ask whether the substance, which is the same in all
304 schemes, prevails over the form, presenting different structures in the various cash flow statements regulated by
305 accounting standards or doctrinal proposals. After analysing the numerous structures, comparing the various
306 forms proposed at the national or international level by bodies and scholars, and after highlighting the limitations
307 of these structures, we will offer the drafting of a sketch flow statement structure determined and studied in the
308 context of an integrated information system, the definition and characteristics of which will be the subject of
309 the next paragraph. The formal structure of the cash flow statement is the subject of a plurality of accounting
310 standards issued by various national and international bodies. In this paragraph, we will focus our attention
311 on the formal principles imposed by the international accounting standard IAS No. 7, the American GAAP
312 standards FAB95 and ASC 230, and the regulations set by Italian national legislation, which, in essence, refers
313 to the rules to be applied in structuring the cash flow statement to the Italian national accounting standards
314 issued by the IAO (Italian accounting organism, henceforth IAO, in Italian language OIC). Here, we will limit
315 ourselves to listing the various accounting principles relating to the cash flow statement without making any
316 observations on the merits and limits of the structures proposed by the different accounting principles. The
317 comments, in terms of the values and limitations of the structures presented by the various accounting principles,
318 will be made in the following paragraph, where we will also propose a form of the statement that, independent
319 of any accounting principle structure, summarises the merits that can be assigned to the international, American
320 and Italian accounting principles and, at the same time, overcomes the limits that can instead be connected to
321 such structures.

3 II

322 Before addressing the summary of the contents of the cash flow statements provided for and regulated by the
323 accounting as mentioned above standards, it is relevant to note how they all converge towards a notion of cash
324 flow as cash flow and not net working capital flow. In the past decade, many accounting standards also referred
325 to net working capital flows and, mainly, to net working capital related to core business activities. In some cases,
326 it could see that this statement was recommended over the statement expressed in cash flows. At the same time,
327 other standards assumed an alternative use of the statement described in cash flows or depicted in characteristic
328 net working capital flows. This has changed profoundly in recent years, as all international and national bodies
329 of almost all nations have agreed on the circumstance that flows expressed in terms of net working capital,
330 and therefore said in terms of financial flows in the broadest sense, are characterised by a reduced informative
331 capacity. and for this reason, all accounting standards now converge on the advice to use the cash flow statement
332 expressed only in terms of cash flows, giving information, to avoid errors, of what should be meant by cash flow.

333 The international standard IAS 7 provides an unequivocal definition of cash flow and cash equivalent. In
334 extremely concise terms, those as mentioned above international standard states that. "cash and cash equivalents
335 identify forms of liquidity held to meet financial needs, especially in the very short term, and not for investment
336 or other non-typical financial, capital or investment purposes.

337 For a value to qualify as cash or cash equivalent it must be convertible to cash in a known amount and must
338 not be subject to any risk of change in value.

339 Thus, an item can only be defined as cash or cash equivalent if it has a short maturity date (typically less than
340 three months from the date of acquisition). It is clear from this definition that share purchases, for example,
341 cannot be considered cash equivalents unless special circumstances arise. In fact, if preferred shares with a
342 maturity of less than three months or with a redemption date less than three months are purchased, share
343 purchases could also be considered cash equivalents.

344 Bank loans are generally considered financing activities. However, in some countries, bank overdrafts repayable
345 on demand are an integral part of a company's liquid assets. Therefore, in these particular cases, such loans may
346 be considered part of cash equivalents.

347 IAS 7 emphasises how 'cash flows exclude movements between items that constitute cash or cash equivalents,
348 as these components are part of cash and cash equivalents' and how these components are part of a company's
349 cash management rather than its operations, financial management or investment management.

350 Liquidity management includes the investment of surplus cash in cash equivalents."

351 From the above, it is clear that any transaction that does not impact cash or cash equivalent is not considered
352 in the context of drawing up the cash flow statement. This principle is highlighted in all national or international
353 accounting standards and issued by any national or international organism.

354 As far as the IAS/IFRS accounting standards are concerned, the cash flow statement is not governed by a

356 compulsory structure at an elevated level. in fact, the international accounting standard merely highlights the
357 potential content. It indicates a few examples of accounting items that must include in the various aggregates
358 provided by the accounting standard.

359 The international accounting standard IAS, 7 stipulates that it must include the following aggregations of
360 inflows and outflows in the cash flow statement: 1. Operating activities 2. Investing activities 3. Financial
361 activities IAS 7, in defining the three activities that must be the points of reference for regrouping all cash
362 inflows and outflows, provides definitions of operating activities, investing activities and financial activities.

363 As far as operating activities are concerned, in the writer's opinion, the international accounting standard
364 cited does not provide a helpful definition of this activity since it provides a very general concept that, within it,
365 at least in theory, could contain many items that it must instead include in investing and financial activities. The
366 definition that IAS 7 gives of operating activities is as follows: operating activities are those from the performance
367 from which the revenue-producing activities of the enterprise are principally derived. Therefore, the cash flows of
368 operating activities derive from transactions and all other events that contribute to the determination of profit or
369 loss. As can be understood, such a definition is not particularly effective in understanding operating activities.
370 However, the international accounting standard above highlights some examples of items that should include in
371 operating activities:

372 *receipts of sales of goods and services made by the enterprise *payments made to employees, collaborators,
373 or others working under forms of contract other than employment with the enterprise *payment of income taxes
374 unless they can be identified explicitly with investment financing transactions (in which case it can see that
375 the communicative effectiveness of the concept is certainly not excellent) *receipts of tax credits arising from
376 previously paid income tax surpluses unless they can be identified explicitly with investment financing activities.
377 the considerations made for the previous item also apply to this item *receipts arising from contracts held for
378 trading or trading purposes in respect of sales or purchases of goods and services *payments arising from contracts
379 held for dealing or trading purposes to trade in sales or purchases of goods and services

380 Concerning the items to be included in investing activities, IAS 7 provides a list that should have in a concept
381 of investing activities provided in the accounting standard. According to the international standard, first and
382 foremost, the aggregation of cash flows from investing activities carried out separately from any other type of
383 aggregate is important because the cash flows of this investing activity represent the degree to which expenses
384 have been incurred and, therefore, income has been earned to acquire resources that, at least in the intentions of
385 the managers, should be able to generate future cash flows. Expenses that fall under

386 4 Global Journal of Management and Business Research

387 Volume XXII Issue V Version I Year 2022 () this concept must be included in investing activities. By way of
388 example, the international accounting standard cited above notes that it must consist of the following within
389 investing activities: *Payments made to support capitalised development costs and internal construction of any
390 kind *receipts from the sale of fixed assets that are replaced due to economic and physical obsolescence, such
391 as receipts from the sale of buildings, plant and machinery and equipment that are to be replaced with more
392 innovative assets *receipts from the sale of other long-term assets or other long-term assets *payments made in
393 cash for the acquisition of equity or debt instruments of other companies *payments made to implement interests
394 in joint ventures *Cash receipts from sales of equity or debt instruments of other enterprises or interests in joint
395 ventures *Cash advances and loans made to third parties, other than advances and loans made by a financial
396 institution or bank, as it will include this item in financing activities *Cash receipts from the repayment of loans
397 and advances made to third parties, other than advances and loans made by a financial institution *cash receipts
398 arising from the repayment of advances and loans made to third parties *Cash payments made for entering into
399 futures contracts, option contracts or swap contracts unless the enterprise holds the contracts for trading purposes
400 and the payments are classified as financing activities * cash receipts made from the conclusion of futures contracts,
401 option contracts or swap contracts, unless the arrangements are in possession of the enterprise for trading purposes
402 and the payments are classified as financing activities Finally, concerning financing activities, the international
403 standard IAS 7 defines why it is relevant to show these flows separately. The standard emphasises how important
404 it is to aggregate the financial values because it is indispensable to forecast the demands of future cash flows
405 from the company's capital suppliers. The aforementioned international standard gives some examples of items,
406 understood as requirements or sources, which must include in financing activities. The examples highlighted and
407 the international standard cited are as follows:

408 *receipts from the issue of shares or other instruments identifying the capital of an enterprise *cash payments
409 to shareholders for the purchase or redemption of shares in the company *cash receipts from the issuance of bonds,
410 loans, mortgages or any other short-term OR long-term financing *cash outflow resulting from the repayment
411 of sums arising from loans previously obtained by the company *cash payments resulting from the reduction
412 or cancellation of the residual liability of a lease contract International Accounting Standard IAS 7 concludes
413 the analysis of the cash flow statement with an in-depth examination of some items that require particular
414 explanation according to the international organism that issued the standard. In highly synthetic terms, these
415 items can be summarised as follows:

416 "cash flows Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional
417 currency by applying to the foreign currency amount the exchange rate between the functional currency and the

418 foreign currency at the date of the cash flow. The cash flows of a foreign subsidiary shall be translated at the
419 exchange rates between the functional currency and the foreign currency at the dates of the cash flows”

420 5 Interest and dividends:

421 “cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be
422 classified in a consistent manner from period to period as either operating, investing or financing activities. The
423 total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been
424 recognised as an expense in profit or loss or capitalised in accordance with IAS 23 Borrowing Costs. Interest
425 paid and interest and dividends received are usually classified as operating cash flows for a financial institution.
426 However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest
427 and dividends received may be classified as operating cash flows because they enter into the determination of
428 profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash
429 flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on
430 investments. Dividends paid may be classified as a financing cash flow because they are a cost of obtaining
431 financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating
432 activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash
433 flows.”

434 6 Taxes on income:

435 “Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from
436 operating activities unless they can be specifically identified with financing and investing activities.”

437 Changes in ownership interest in subsidiaries and other business: Foreign currency cash flow:

438 “The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be
439 presented separately and classified as investing activities” Changes in liabilities arising from financing activities
440 “ An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities
441 arising from financing activities, including both changes arising from cash flows and non-cash changes. To the
442 extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes
443 in liabilities arising from financing activities: (a) changes from financing cash flows; (b) changes arising from
444 obtaining or losing control of subsidiaries or other businesses; (c) the effect of changes in foreign exchange rates;
445 (d) changes in fair values; and (e) other changes. Liabilities arising from financing activities are liabilities for
446 which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from
447 financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial
448 assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial
449 assets were, or future cash flows will be, included in cash flows from financing activities”.

450 As we have already pointed out, the international standard does not impose a scheme of reference on companies.
451 Still, it merely gives examples of inflows-outflows corresponding to the three aggregations envisaged: operating,
452 investing and financing activities. The international standard provides that it can determine the flow of operating
453 activities according to the direct or indirect method. However, it points out that it is preferable to use the direct
454 method. With the direct method, income is added to the expenditure associated with the transactions that the
455 organism issuing the standard considers being included in the concept of operating activities. The difference
456 between the two methods concerns how the flow is determined, not the substance, since the results of the two
457 methods leads to the exact quantification.

458 Conversely, the indirect method adds to or subtracts from the operating profit or loss all nonmonetary costs
459 and revenues, the net working capital delta, and the items that prevent this sum from identifying a cash flow.
460 With the indirect method, therefore, one starts from the profit and arrives at the cash flow through the addition
461 or elimination of nonmonetary items or the Delta of all receivables and payables and inventories that allow one
462 to transform the costs and revenues implicitly included in the profit or loss for the year into a cash flow. In the
463 writer’s opinion, the direct method is much more effective in communication, while the indirect approach is less
464 comprehensive. The IAS 7 standard suggests using the direct method while permitting the indirect way.

465 7 III.

466 8 Principles Indicated by Italian

467 Legislation and Accounting Principle no. 10 Cash Flow Statement Issued by the Italian Accounting Organism
468 (IAO, in Italian Language OIC)

469 The Italian civil code provides for only one Article that establishes a substantial reference to the national
470 accounting standards issued by the Italian national accounting body. Article 2425 ter Cash flow statement
471 merely states that the cash flow statement must show, for the financial year to which the financial report refers
472 and for the previous one, the amount and composition of cash and cash equivalents at the beginning and end
473 of the financial year, and the cash flows for the financial year deriving from operating, investing and financing
474 activities, including, with independent indication, transactions with shareholders.

475 As can be understood from reading the Article of the civil code cited above in, in essence, the civil law legislator
476 has deferred to the accounting standards the task of identifying the meaning of the terms used in the Article, i.e.
477 the terms of operating, financing and investing activities, and of indicating the items that, within each of these
478 aggregates, must be highlighted. The code has not established whether the structure shown by the accounting
479 standard OC must provide for a mandatory layout or, as is the case in IAS7, only provide for a list of items that
480 do not indicate a compulsory formal structure to be followed.

481 On From what is stated in this Article, it can be understood how the Italian civil code's almost blank reference
482 to the IC principle is perfectly legal insofar as it is provided for in Article 9a above.

483 Therefore, to understand what the Italian Civil Code imposes concerning the content of the cash flow statement,
484 which, as we recall, represents the fourth document constituting financial reporting for the financial year together
485 with the balance sheet, profit and loss and the notes to the financial statements, it is necessary to refer exclusively
486 to principle number 10 cash flow statement issued by the IAO (Italian accounting organism, henceforth IAO, in
487 Italian language OIC).

488 Before addressing this issue, it is necessary to recall that among all the nations adhering to the IASB, the
489 body that issues the IAS/IFRS standards, the ultimate goal is to align their national legislation and accounting
490 standards, as much as possible with the standards issued by the international body and therefore with the IAS
491 and IFRS standards. As will be noted, the content of the Italian national accounting Italian Accountin Organism
492 OIC number 10 cash flow statement reproduces, albeit with some slight modifications, what is reported in the
493 international standard IAS 7.

494 The IAO (in italian language OIC)) principle 10 cash flow statement requires that flows, precisely as in
495 IAS 7, must be aggregated into operating activities, investing activities and finally, financing activities. The
496 standard specifies that 'Operating activities generally include transactions related to the acquisition, production
497 and distribution of goods and the provision of services, even if related to incidental operations, as well as other
498 transactions not included in investing and financing activities. Investing activities include purchasing and selling
499 property, plant and equipment, intangible and financial assets and financial assets not held as fixed assets.
500 Financing activities include transactions to obtain and return cash in the form of risk capital or debt capital.'

501 Concerning the definition and content of the aggregate of operating activities investing activities, and financing
502 activities, it can be seen that there is a substantial similarity with what is reported in IAS 7.

503 Principle IAO (italian accounting organism, in italian language OIC) n. 10 states that: "Operating activities
504 Cash flows from operating activities generally include cash flows arising from the acquisition, production and
505 distribution of goods and the provision of services, even if they relate to incidental operations, and other flows
506 not included in investing and financing activities.

507 Some examples of cash flows generated or absorbed by operating activities are cash receipts from the sale of
508 products and the provision of services; 6 receipts from royalties, commissions, fees, insurance reimbursements
509 and other revenues; payments for the purchase of raw materials, semi-finished goods, merchandise and other
510 inputs; payments for the acquisition of services; payments to, and on behalf of, employees; tax payments and
511 reimbursements; and cash receipts for financial income.

512 Operating activities consist of transactions that result in revenues and costs necessary to produce those
513 revenues. The operations of operating activities are reflected in the profit and loss and represent the sources of
514 financing for the company, particularly selffinancing. From them, the liquidity needed to finance future operations
515 is generated.

516 Cash flow from operating activities is determined using the indirect method, whereby profit (or loss) for the
517 year, or profit (or loss) before tax, is adjusted for elements of a non-monetary nature, i.e. accounting items that
518 did not require disbursement/collection of cash during the financial year and that did not have a counterpart in
519 net working capital; some examples are depreciation of fixed assets, provisions for risks and charges, provisions
520 for severance pay, write-downs for impairment losses; undistributed profits related to investments in associated
521 companies valued using the equity method; changes in net working capital related to costs or revenues of operating
522 activities. Some examples are changes in inventories, changes in trade receivables and trade payables, and changes
523 in accrued income and prepaid expenses. Changes in net working capital represent deviations from the previous
524 year's balances, transactions whose effects are included inflows from investing and financing activities. For
525 example, gains or losses from the disposal of assets. These adjustments transform positive and negative income
526 components into cash receipts and payments (i.e. changes in cash and cash.

527 The profit/loss for the year is adjusted for changes in net working capital in the following circumstances (by way
528 of example) an increase in trade receivables is subtracted from profit (loss) for the year, as this increase represents
529 the lower amount collected from customers with respect to revenue accrued during the year and credited to profit
530 and loss; conversely, a decrease in receivables is added to profit (loss) for the year, as this represents the higher
531 amount of receivables collected with respect to revenue accrued during the year and credited to profit and loss;
532 an increase (decrease) in trade payables is added to (subtracted from) profit (loss) for the year as it represents
533 a portion of production costs not yet paid (or a part of production costs spent in excess of accrued expenses);
534 the increase (decrease) in inventories is subtracted from (added to) the profit (loss) for the year IAO (Italian
535 Accounting Organism (Henceforth IAO, in Italian language OIC))hile in the calculation of profit, the costs of
536 production are considered, which include not only purchases but also the change in inventories, while for changes
537 in cash only purchases are relevant. By way of example, in the case of an increase in inventories of goods, this

538 increase is subtracted from the profit (loss) for the year since, during the year, the purchases made exceeded the
539 goods sold by an amount equal to the difference between the closing (higher) and opening (lower) inventory. By
540 subtracting the change in stocks from the profit/loss for the year, the economic effect is neutralised so that the
541 statement only reflects the impact on the financial position of the cash used for purchases during the year; the
542 increase in accrued expenses is added to the profit/loss for the year as this increase represents the higher amount
543 of costs not yet paid through cash compared to expenses charged to profit and loss.

544 The cash flow from operating activities can also be determined using the direct method by presenting the gross
545 positive, and negative cash flows from transactions included in operating activities.

546 9 *Investing activities

547 Cash flows from investing activities include purchases and sales of tangible, intangible and financial fixed assets
548 and financial assets not held as fixed assets.

549 By way of example, cash flows generated or absorbed by investing activities derive from purchases or sales of
550 buildings, plants, equipment or other tangible fixed assets (including tangible fixed assets of internal construction);
551 purchases or sales of intangible fixed assets, such as patents, trademarks, concessions; these payments also include
552 those relating to capitalised deferred charges; acquisitions or disposals of equity investments in subsidiaries and
553 associates; acquisitions or disposals of other equity investments; acquisitions or disposals of other securities,
554 including government securities and bonds; disbursements of advances and loans made to third parties and
555 collections for their repayment.

556 Cash flows arising from the purchase of fixed assets are distinctly presented in investing activities, for the cash
557 outflow incurred in the year equal to the total purchase price adjusted by the change in payables to suppliers of
558 fixed assets; this is to show the financial resources absorbed by the purchase transaction in a unified manner.

559 Cash flows deriving from the sale of fixed assets are separately presented in investing activities, for the revenue
560 received during the year equal to the realisation price (i.e. the net book value increased by the capital gain or
561 reduced by the capital loss) adjusted by the change in receivables due from customers for fixed assets; this is to
562 show the source of financial resources generated by the sale transaction as a whole. 36. Given that the gain or
563 loss on the net book value of the fixed asset is recognised in profit and loss, the company adjusts the profit/loss
564 for the year in operating activities by the value of the gain/loss.

565 The company presents the primary cash receipts or payments arising from investing activities separately for
566 the different classes of fixed assets (intangible, tangible and financial), showing financial assets not held as fixed
567 assets separately. Financing activities

568 10 *Financing activities

569 The cash flows of financing activities include the flows that result from obtaining or returning cash in the form
570 of risk capital or debt capital.

571 By way of example, the cash flows generated or absorbed by financing activities are: cash receipts from the
572 issue of shares or units representing risk capital; payment of dividends; payments for the repayment of risk capital,
573 including in the form of the purchase of treasury shares; receipts or payments arising from the issue or refund of
574 bonds, fixed-income securities, taking out or repayment of mortgages and other short-or longterm loans; increase
575 or decrease in other debts, including short-or medium-term debts, of a financial nature. 40. The company
576 presents the main categories of cash receipts or payments from financing activities separately, distinguishing cash
577 flows from risk capital and debt capital.

578 11 a) Particular Cases of Cash Flows

579 12 Interest and dividends

580 Interest paid and received is presented separately under cash flows from operating activities, except in particular
581 cases where it relates directly to investments (investing activities) or loans (financing activities).

582 Dividends received and paid are presented separately in operating and financing activities.

583 Interest and dividend cash flows are presented separately in the cash flow statement; therefore, no single amount
584 of dividends and interest is reported in the cash flow statement. The classification of interest and dividend cash
585 flows is kept constant over time. 9 Income Taxes Cash flows related to income taxes are separately disclosed
586 and classified in operating activities. Examples of cash outflows are: the payment of taxes to tax authorities,
587 including charges on account of taxes. Examples of cash inflows are: payments received from tax authorities,
588 including surpluses and refunds. Foreign currency cash flows Cash flows arising from transactions in foreign
589 currencies are recorded in the company's financial reporting in euros by applying to the foreign currency amount
590 the exchange rate between the euro and the foreign currency at the time the cash flow occurs.

591 Gains or losses arising from unrealised exchange rate fluctuations in foreign currencies do not represent cash
592 flows; the profit (or loss) for the year is, therefore, adjusted to account for these transactions, which are not
593 monetary.

594 The effect of exchange rate changes on cash held in foreign currencies is presented separately from cash flows
595 from operating, investing and financing activities. Derivative Financial Instruments Cash flows arising from
596 derivative financial instruments are presented in the cash flow statement in investing activities.

597 Suppose a derivative financial instrument (e.g. a futures, forward contract, option, swap) is designated as a
598 hedging instrument. In that case, the related cash flows are presented in the same category as the cash flows of
599 the hedged item (e.g. a medium-to long-term loan). The cash inflows and outflows of the hedging derivative are
600 reported separately from the cash flows of the hedged item. Purchase or sale of business units

601 The cash flow arising from the consideration paid/collected for the acquisition and disposal of a business unit
602 is presented separately in investing activities, net of cash acquired or disposed of as part of the transaction.

603 The company also discloses the following information at the bottom of the cash flow statement: a) the total
604 consideration paid or received; b) the portion of the consideration consisting of cash; and c) the amount of cash
605 acquired or disposed of as part of the business acquisition/disposal transaction and d) the carrying amount of
606 the assets/liabilities acquired or disposed of.

607 It may not offset the cash flow relating to the acquisition of one line of business against the cash flow relating
608 to the disposal of another line of business. ”

609 The Italian national accounting standard IAO (Italian Accounting Organismo) number 10 cash flow statement,
610 unlike the international standard IAS 7, provides for schemes that companies must apply. even if they are defined
611 as reference schemes for the preparation of the cash flow statement, in essence, they are compulsory schemes that
612 the company must use.

613 As can be seen from the schedules on the following pages, and provides for the possibility of determining
614 the flow of operating activities with the indirect and direct method precisely as is the case with international
615 standard IAS 7.

616 Principle iao (italian accounting organism (henceforth iao, in italian language oic)) n. 10 Exchange rate
617 effect on cash and cash equivalents Cash and cash equivalentsat the beginning of the year of which bank and
618 postaldeposits cheques cash and cash equivalents on hand Cash and cash equivalentsat the end of the year of which
619 bank and postaldeposits cheques cash and valuables on hand Exchange rate effect on cash and cash equivalents
620 Cash and cash equivalentsat the beginning of the year of which bank and postaldeposits cheques cash and cash
621 equivalents on hand Cash and cash equivalentsat the end of the year of which bank and postaldeposits cheques
622 cash and valuables on hand

623 13 Principle Gaap U.S.A. N. 95 E Asc 230

624 U.S. GAAP FAS 95-Statement of Cash Flows (Cash flow statement) supersedes and repeals APB Opinion No.
625 19, Reporting Changes in Financial Position, and requires the preparation of a document called a statement of
626 cash flows, which is interpreted as a constituent part of financial reporting, like a balance sheet and a profit
627 and loss statement. FAS 95 requires the cash flow statement to classify cash receipts and payments according
628 to whether they arise from operating, investing or financing activities and provides definitions of each category.
629 SFAS No. 95 encouraged companies to present cash flows from operating activities directly, indicating the main
630 classes of operating cash receipts and payments (direct method). Enterprises that chose not to report operating
631 cash receipts and payments were required to register the same amount of net cash flows from operating activities
632 indirectly by adjusting net income to reconcile it to net cash flows from operating activities (the indirect or
633 reconciliation method) by eliminating the effects of (a) all deferrals of past operating cash receipts and payments
634 and all accruals of expected future operating cash receipts and payments and (b) all items included in net income
635 that do not affect operating cash receipts and payments. If it used the direct method, a reconciliation between
636 net income and net cash flows from operating activities had to be provided in a separate statement.

637 In 1989, the need was perceived in the U.S.A. also to regulate the cash flow statements of governmental entities,
638 which is why The Governmental Accounting Standards Board (GASB) began its study of cash flow reporting by
639 evaluating the provisions of FASB 95 within the context of the governmental environment.

640 In 1989, GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and
641 Governmental Entities That Use Proprietary Fund Accounting, was issued. GASB 9 established new guidelines
642 for governments in preparing cash flow statements. This course section includes the following: GASB 9, 34 and
643 35, The Purpose of the Statement of Cash Flows, Fund types affected, Cash and Cash Equivalents, Direct Method
644 and What is a cash flow?

645 In GASB 9, 34 and 35, there were four categories of aggregation of assets: Cash flows from Operating Activities
646 Cash flows from Noncapital Financing Activities Cash flows from Capital and Related Financing Activities Cash
647 flows from Investing Activities

648 The cash flow statement did not cover governmental activities and was therefore governed by SFASN. 95
649 provided for only three types of activities according to which the sources and requirements expressed in terms of
650 cash were to be aggregated:

651 **14 *operating activities *investment activities *financial activi-
652 ties**

653 The definitions of operating, investing and financial activities recall what was already proposed by IAS 7 and
654 IAO (Italian Accounting Organism, in the Italian language OIC) No. 10.

655 For the sake of completeness, what is defined explicitly in the FASB's SFAS 95 document is reiterated here:
656 "Cash Flows from Investing Activities Investing activities include making and collecting loans and acquiring and
657 disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is,
658 assets held for or used in the production of goods or services by the enterprise (other than materials that are
659 part of the enterprise's inventory). Page 7 Cash inflows from investing activities are: 1. Receipts from collections
660 or sales of loans made by the enterprise and of other entities' debt instruments (other than cash equivalents)
661 that were purchased by the enterprise 2. Receipts from sales of equity instruments of other enterprises and from
662 returns of investment in those instruments 3. Receipts from sales of property, plant, and equipment and other
663 productive assets.

664 **15 Cash outflows for investing activities are:**

665 1. Disbursements for loans made by the enterprise and payments to acquire debt instruments of other entities
666 (other than cash equivalents) 2. Payments to acquire equity instruments of other enterprises 3. Payments at the
667 time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive
668 assets.

669 **16 Cash Flows from Financing Activities**

670 Financing activities include obtaining resources from owners and providing them with a return on, and a return
671 of, their investment; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and
672 obtaining and paying for other resources obtained from creditors on long-term credit.

673 **17 Cash inflows from financing activities are:**

674 1. Proceeds from issuing equity instruments 2. Proceeds from issuing bonds, mortgages, notes, and from other
675 short-or long-term borrowing.

676 Cash outflows for financing activities are:

677 1. Payments of dividends or other distributions to owners, including outlays to reacquire the enterprise's equity
678 instruments 2. Repayments of amounts borrowed 3. Other principal payments to creditors who have extended
679 long-term credit.

680 **18 Cash Flows from Operating Activities**

681 Operating activities include all transactions and other events that are not defined as investing or financing
682 activities in paragraphs 15-20. Operating activities generally involve producing and delivering goods and
683 providing services. Cash flows from operating activities are generally the cash effects of transactions and other
684 events that enter into the determination of net income.

685 **19 Cash inflows from operating activities are:**

686 1. Cash receipts from sales of goods or services, including receipts from collection or sale of accounts and both
687 short-and long-term notes receivable from customers arising from those sales 2. Cash receipts from returns on
688 loans, other debt instruments of other entities, and equity securitiesinterest and dividends 3. All other cash
689 receipts that do not stem from transactions defined as investing or financing activities, such as amounts received
690 to settle lawsuits; proceeds of insurance settlements except for those that are directly related to investing or
691 financing activities, such as from destruction of a building; and refunds from suppliers.

692 Cash outflows for operating activities are:

693 1. Cash payments to acquire materials for manufacture or goods for resale, including principal payments on
694 accounts and both short-and longterm notes payable to suppliers for those materials or goods 2. Cash payments to
695 other suppliers and employees for other goods or services Certain cash receipts and payments may have aspects of
696 more than one class of cash flows. For example, a cash payment may pertain to an item that could be considered
697 either inventory or a productive asset. If so, the appropriate classification shall depend on the activity that is
698 likely to be the predominant source of cash flows for the item. For example, the acquisition and sale of equipment
699 to be used by the enterprise or rented to others generally are investing activities. However, equipment sometimes
700 is acquired or produced to be used by the enterprise or rented to others for a short period and then sold. In those
701 circumstances, the acquisition or production and subsequent sale of those assets shall be considered operating
702 activities."

703 Nel 2008, the FASB changed the codification of its accounting policies. The codification became effective
704 for interim and annual periods ending after 15 September 2009. FASB Documentation No. 168 explained and
705 explained the reasons why SFASs would be replaced with ASCs. All previous accounting standards documents

706 were replaced as described in FASB Statement No. 168, The FASB Accounting Standards Codification and the
707 Hierarchy of Generally Accepted Accounting Principles. The Codification reorganised hundreds of US GAAP
708 pronouncements into approximately 90 accounting topics and presented all topics with a formal structure with
709 theoretical and practical consistency.

710 The transition from SFAS to ASCs did not change GAAP, but introduced a new, clearer and more intelligible
711 formal structure., The FASB had the goal of reducing the time required to search through the set of ASC
712 standards for topics of interest to those researching and prepared the ASC standards in a manner that reduced
713 the risk of non-compliance with the standards.

714 It should note that the ASC standards are now the only source of GAAP ASC No. 230 governed the cash
715 flow statement and had a 2016 update. This update was made when the FASB aimed to reduce, when possible,
716 the diversity in practice resulting from different interpretations of certain parts of the standard. In reality, this
717 update did not change the structure of Topic 230, which echoed almost wholly when set out in SFAS 95 above.

718 The 2016 amendments concerned the specification of specific items:

719 Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt
720 instruments with coupon interest rates, contingent consideration payments made after a business combination;
721 proceeds from the settlement on insurance claims; proceeds from the territory of corporative-owned life insurances,
722 including bankowned life insurance policies; distributions received from equity method investees; beneficial
723 interests in securitisation transactions and separately identifiable cash flow and application fo predominance
724 principle. Apart from some specifications on the items identified above, which, as can be seen, are very particular
725 items that are not very common in the cash flow statements of even medium-large companies, ASC 230 reiterated
726 what had already been established by SFAS 95, i.e.: *In the cash flow statement, it must disclose aggregate
727 income and expenses according to the origin of the transactions. Topic 230 mentions the aggregations already
728 provided in SFAS 95 and explained in detail on the previous pages, i.e. operating activities, investing activities
729 and financial activities. The items that Topic 230 brings up as needs and sources to be included in the three
730 activities mentioned above are similar to those identifiable in SFAS 95. For the sake of completeness, the items
731 listed in ASC 230 are given below: As we have seen in the previous pages, the IASB, the FASB, the Italian
732 civil code and the IAO (Italian Accounting Organism (Henceforth IAO, in Italian language OIC)) have issued
733 accounting standards that converge towards a structure that, although characterised by changes and peculiarities
734 related to each specific scheme, present a substantial coherence and homogeneity of the overall vision of the cash
735 flow statement. At present, all accounting standards require aggregating items into three activities: operating,
736 investing and financing. The issuance of accounting standards applied in more or less extended groupings of
737 nations is positive in that it ensures that the statement disseminated outside the company is homogeneous for
738 all companies. This is the most outstanding merit of all the accounting standards mentioned and analysed in the
739 preceding pages, which provide for a reference scheme or a series of indications that, although without indicating
740 a mandatory method, lead to the drafting of consistent and similar formal structures.Operating

741 This structure consistency represented the most outstanding merit of the financial statements governed by
742 the bodies mentioned above and illustrated in the preceding pages. At this point, however, one must ask oneself
743 whether the structure proposed by the bodies as mentioned above is effectively informative for the internal
744 managers who have to manage the company and for third parties external to the company who see the cash flow
745 statement disseminated as an element of financial reporting, the only information tool capable of providing news
746 about the financial dynamics of the company.

747 In reality, various information gaps can be identified in the schedules governed by the bodies as mentioned
748 above and, therefore, in the financial statements proposed, either in the form of a mandatory or recommended
749 program as in Italy or the form of a mere list of illustrative items as in the IAS and ASC international standards.
750 These shortcomings prevent an overall understanding of the company's situation. In summary terms, we can
751 state that the main weaknesses are as follows:

752 In defining operating activities, all of the accounting mentioned above standards do not give a precise definition
753 that is easily understood by those who have to draw up the document. The cash flow of operating activities is,
754 in fact, often contaminated by the cash flow effects of investment and financing operations, including tax effects
755 related to these operations

756 The definition of investing activities and financing activities is also non-specific. Therefore, the flows of
757 investing activities can also be continuously contaminated by the tax effects of the other mentioned activities.

758 The location of interest is often explained with additional indications concerning the primary signs of the
759 documents that lay down the rules for preparing the cash flow statement. The doctrine has pointed out how
760 it would have been appropriate to ensure that, for example, all interest was included, in all standards, as
761 financing outflows, in the context of financing activities without assuming different options and not indicating
762 this information as quasi-supplementary information to the basic scheme that is explained by the basic rules of
763 the standards For some scholars, the principles should envisage purchases and sales of short-term non-trading
764 debt securities as financing flows together with receipts of interest on these because these flows result from the
765 fact that there are surplus cash balances, which is

766 20 Global Journal of Management and Business Research

767 Volume XXII Issue V Version I Year 2022 () precisely the opposite of borrowing, which is a financing activity A
768 further limitation of the structures or lists of items suggested by the international, American and Italian national
769 accounting standards concerns the circumstance that, based on these accounting items, it is difficult, or rather
770 in most cases impossible, to determine the monetary cash flow resulting from the performance of characteristic
771 activities. Monetary cash flow from core business activities is understood as the flow of sources net of the
772 requirements associated with all so-called monetary revenues net of the so-called monetary costs associated with
773 typical or core business operations. When reference is made to monetary costs and revenues, it is not intended to
774 refer to the values entered in the profit and loss statement as operating costs and revenues calculated according
775 to economic competence appear in that document. So-called monetary costs and revenues are not academic
776 scientific terms, often used to make the reader understand which values to include in the so-called characteristic
777 cash flow. It is evident that the latter matter, representing a cash flow value, must be composed of monetary
778 sources and needs. Referring to the characteristic activity, it is equally logical how only values connected with
779 the performance of the typical business activity can appear in this aggregate. In light of these considerations,
780 it can be understood how the characteristic monetary cash flow derives from the sum of the needs and sources
781 connected with costs and revenues, which derive from the performance of the typical activity. Therefore, it
782 will not include nonmonetary costs such as depreciation, amortisation, provisions for risks and charges and
783 opening and closing inventories in the characteristic monetary cash flow, and all costs and revenues that can
784 be defined as characteristic must be transformed into monetary cash flows, i.e. they must be reduced by the
785 differences in payables and receivables that can be identified in the balance sheet and determined by comparing
786 the value of these payables and receivables at 1/1 and 31/12 of the year or period in question. Realising the items
787 included in the national or international and American accounting standards illustrated above, it is noticeable
788 how often generic items appear, such as income from other revenues and expenses from additional costs. It is
789 evident how on the basis of these definitions, it is impossible to understand what is characteristic and what
790 is not connected to the performance of the typical business activity. In the proposed items of the accounting
791 standards illustrated in the previous paragraph, there is also the expense for employee costs. It is evident that if
792 written this way, the output includes wages, contributions and severance pay. This mixture of values prevents the
793 determination of the characteristic cash flow as this value includes wages and contributions but certainly cannot
794 include the payment of a severance payment liability paid to an employee who has terminated his employment
795 with the company. Suppose attention was to be focused on the indirect method of calculating cash flows related to
796 operating activities. In that case, it is possible to assume that what, for example, is defined in the Italian principle
797 IAO (Italian Accounting Organism (OAO, in Italian language OIC)) as cash flow after changes in net working
798 capital, could be considered, in essence, as the cash flow from core business. This, however, cannot be taken
799 for granted since the items indicated in the scheme prepared by the Italian Accounting Organism (Henceforth
800 IAO, in Italian language OIC) are absent all payables and receivables that are not directly connected to the
801 purchase of raw materials but are connected to costs included in the performance of characteristic activities. In
802 addition, nothing is said about internal constructions, which can even change the amount of the characteristic
803 monetary cash flow. For these reasons, it is considered that the accounting principles illustrated in the preceding
804 paragraph also present, among the limits that can identify in these statements/listings of items, the limitation
805 of the substantial impossibility of calculating the characteristic monetary cash flow, which instead, in a dynamic
806 financial analysis represents an essential element. In this regard, it should note that the interpretation of the flows
807 presented in a cash flow statement must always be derived from a comparison between recurring requirements
808 and recurring sources and subsequently from non-recurring and non-recurring sources. The only exception to this
809 rule of comparing several values (regular needs with frequent sources and non-recurring needs with non-recurring
810 sources) concerns the characteristic cash flow. This is the only value that can be interpreted without making
811 any other comparison. This happens when this item is negative. If the typical monetary cash flow is negative,
812 the characteristic activity, instead of bringing monetary flows to the company, is hydrazine. And already this
813 consideration causes the list to express a negative judgement on the dynamic financial performance of the company
814 may fall that against a negative cash flow, there are some recurring sources such as rents receivable that cover
815 this need resulting from the negative cash flow. In this case, however, the circumstance that the regular sources
816 cover the recurring needs is not sufficient to express a favourable judgement on the dynamic financial equilibrium
817 because the presence of a negative cash flow characteristic is a negative element of the company's operating
818 performance. The circumstance that there is an activity of a capital nature, and therefore, by definition, not
819 characteristic, that covers the drainage of monetary funds implemented by the same characteristic action does
820 not entail a favourable judgement on the dynamic financial equilibrium. Therefore, determining the cash flow is
821 reasonable and indispensable to express any decision on the dynamic financial situation of the company. In the
822 international, American, and Italian national standards illustrated in the previous paragraph, this value can be
823 challenging to determine, i.e., absolutely impossible to quantify, representing a limitation. A heavy one of the
824 accounting standards outlined above AND represents a highly relevant limitation of the flow data presented in
825 the statements prepared according to these standards.

826 A further negative element of the cash flow statement governed by the accounting as mentioned above principles
827 is the circumstance that this is ready and unrelated to the scheme and structure assumed by the balance sheet and
828 the profit and loss. The three documents appear as a single information structure; as in all countries covered by

829 the accounting as mentioned above standards, financial reporting consists of at least the three papers mentioned
830 earlier. The observation is that in some countries, such as Italy, financial reporting is formed by a fourth document
831 consisting of notes on financial reporting. But if we focus our attention on the three accounting documents, i.e.
832 balance sheet, profit and loss and cash flow statement, we can see that the three papers appear to be unrelated in
833 terms of the terms used. There is no coherence between the terms used in the three documents. There seems to
834 be no desire to create an integrated system, neither from the documents issued by the national or international
835 bodies mentioned above nor from the regulations and legislation present in Italy is present in many other nations
836 that refer, directly or indirectly, to the accounting principles illustrated in the preceding pages. The information
837 structure of financial reporting intended for the outside world and used, often, also by the internal managers of
838 the company to manage the company itself, therefore, appears to be a set of documents that are not coherent at
839 the formal level of the expressions used. One term can acquire different meanings in various documents, just as
840 two other words in multiple documents constituting financial reporting can have the same meaning. This creates
841 confusion in those who manage the company and those who, from the outside, must understand the company's
842 situation. To this can be added the fact that, indeed, whoever issued the inconsistent balance sheet, profit and
843 loss and cash flow statement schemes, cannot have assumed consistency, at a formal terminological level and a
844 substantive level, with the documents constituting management control, i.e. all those documents that analyse the
845 company not as a single entity but as a set of units (products, departments, etc.) that are analysed separately to
846 better understand the performance of the company at the level of individual products, individual departments,
847 individual sectors, etc. . all the documents constituting management control and strategic control cannot be
848 consistent, at a formal substantive level, with the phrases and EE structures proposed in financial reporting by the
849 various accounting standards, since the same documents constituting financial reporting are not consistent with
850 each other from a formal and substantive point of view. This is a severe limitation since formal and substantive
851 consistency between all the company's information documents is an essential element for those who manage
852 the company to be able to make the best decisions and implement a decision-making process that leads to the
853 achievement of profit maximisation objectives, the attainment of financial balance, both static and dynamic, and
854 excellent general company performance.. For this reason, the writer believes that the cash flow statement, as well
855 as the balance sheet and the profit and loss, should be part of an information system integrated with management
856 control that allows for a set of information documents that are coherent from every point of view, both formal and
857 substantial. This is a problem of internal company management and not external communication to companies.
858 As far as external communication is concerned, the documents proposed by the various accounting principles of
859 the balance sheet, profit and loss, and cash flow statement can be accepted, albeit characterised by considerable
860 information limits, as they guarantee coherence between the documents issued by all the companies of the same
861 nation OR by several countries that use the accounting as mentioned earlier principles. If, on the other hand,
862 we focus our attention on the company's internal management, the situation changes completely. The ability
863 to rely on an integrated information system is essential for the company's management to be carried out most
864 effectively and efficiently. Only this can achieve excellent profit, financial and asset objectives.

865 In an integrated information system, each word must have an unambiguous meaning. It is not conceivable
866 that an accounting item has multiple meanings or that most things have a single meaning. Therefore, the
867 circumstance that there should be this consistency between the terms used in the various documents that make
868 up the integrated information system does not appear to be an optional extra but rather an indispensable element
869 for the company's information system to be able to effectively provide the company's internal managers with
870 a clear, correct and global vision of the company's income, financial and asset situation. Both from a general
871 point of view, through the global schemes such as the balance sheet, the profit and loss and the annual cash
872 flow statement, and through the documents that analyse the company in its units such as individual products,
873 individual departments, individual sectors, etc.

874 To achieve this, it is proposed to reclassify the balance sheet the profit and loss according to these structures,
875 which are characterised by complete formal and substantial consistency:

876 -Immediate liquidity includes everything that is already cash and cash equivalents; -By definition, deferred
877 cash includes only and exclusively short-term receivables. The subdivision of this aggregate into four micro-
878 aggregates (commercial, financial, tax and non-characteristic) is necessary to determine a series of income and
879 financial ratios: deferred commercial liquidity substantially includes all short-term trade receivables net of the
880 allowance for doubtful accounts; deferred financial liquidity includes all short-term financial receivables; tax-
881 deferred liquidity includes all short-term tax and social security/assistance receivables; non-characteristic deferred
882 liquidity consists of all future revenues (realisable within 12 months), not already included in previous aggregates,
883 which have the characteristic of not being considered part of the company's typical operations. This is the case,
884 for example, of receivables related to the sale of longterm assets. It is evident that this receivable cyear be
885 included in the typical business activity (otherwise, the receivable would be from customers). For this reason,
886 it can be included in this sub-aggregate; -Short-term assets non-characteristic comprise all accounting items
887 held for capital purposes such as securities/shares had with a view to their sale within the next financial year;
888 -Availability equivalents are the total inventories of the enterprise; -Tangible long-term assets comprise everything
889 that will provide the company, through the start-up of the production process, with income in the long term and
890 that, at the same time, is endowed with physicality; -Intangible long-term assets, on the other hand, consist of
891 everything that will provide the company with long-term income through the start of the production process, but

21 COST OF FINISHED PRODUCTS

892 which, at the same time, is not physical; -Long-term credit assets include only and exclusively long-term loans.
893 The subdivision of this aggregate into four micro-aggregates (commercial, financial, tax and non-characteristic by
894 definition) is necessary to determine a series of income and financial ratios: the long-term commercial credit asset
895 includes all long-term trade receivables net of the allowance for doubtful accounts; the long-term financial credit
896 asset includes all long-term financial receivables; the long-term tax credit asset includes all long-term tax and
897 social security/welfare receivables; the long-term non-characteristic credit asset by definition consists of all future
898 revenues (realisable beyond 12 months), not already included in previous aggregates, which have the characteristic
899 of not being able to be considered as belonging to the company's typical operations. This is the case, for example,
900 of receivables related to the sale of long-term assets. It is evident that, by theoretical definition, this receivable
901 cyear can be included in the typical business activity (otherwise, the receivable would be from customers). For
902 this reason, it can be included in this sub-aggregate; -Long-term assets comprise long-term items that identify
903 capital investments. Examples of such things may be civil buildings and securities and participations held not
904 for speculative purposes but as a long-term investment in the company; -Stand-alone items It should be noted
905 that it is only in the context of the integrated information system that an element is highlighted that is, in
906 fact, fundamental for the implementation of a correct balance sheet analysis and whose failure to be taken into
907 account may lead to the determination of aggregates without financial significance. In addition to the aggregates
908 indicated above, it is desirable to include a further category of items in the capital employed and in the total
909 sources, defined as "stand-alone items", which identifies a set of items which, although they must be recognised
910 in the reclassification for accounting balancing reasons, in reality, will not be transformed into future income
911 or expenditure. An example of such an item is the amount of a provision for future expenses or tax provision
912 that, following specific elements (e.g. court decisions, tax commission decisions, etc.). However, it can be eliminated from the accounts due to the principles of prudence and accrual; it can be reasonably assumed that,
913 in the following financial year, it will be transformed, for accounting purposes, into an extraordinary item and not
914 into a future expense or income (separate item in the assets). An example of an item that should be recognised
915 in different entities in debt is the amount of the tax advance that exceeds the tax liability that can be offset and
916 will be offset in the future. This amount does not identify a lower expense recognised in the financial statements
917 (the debt has not yet been created), nor is it considered future income. For this reason, it should be recognised
918 as a separate item in the reclassified balance sheet, an aggregate that, as noted above, is part of the concept of
919 the net asset or net capital employed (i.e. the reclassified total assets). -Short-term financial liabilities include
920 all financial liabilities that will result in a cash outflow within one year; short-term tax liabilities include all
921 tax and social security/social security liabilities that will result in a cash outflow within one year; short-term
922 nonfinancial liabilities include all non-tax and nonfinancial liabilities that will result in a cash outflow within one
923 year; -long-term financial liabilities include all debts of a financial nature that will result in monetary outlays
924 beyond one year; long-term tax liabilities include all debts of a tax and social security/social security nature that
925 will result in monetary outlays beyond one year; long-term non-financial liabilities include all debts of a non-tax
926 and non-financial nature that will result in monetary outlays beyond one year; -Shareholders' equity is interpreted
927 as the company's wealth that will essentially result in the company's final exit. It is only when the company is
928 put into liquidation that equity will become a future output; -Stand-alone items: see the considerations made
929 about stand-alone items above. Naturally, items under liabilities are found in assets: an example of such an item
930 is the amount of advances from customers received in connection with a contract that is about to be terminated
931 and for which no reimbursement is expected. This item will become a contingent asset the following year, and,
932 therefore, there is and will be no monetary movement. For this reason, the item must be recognised in a separate
933 aggregate, separate from the items that will undoubtedly become cash outflows or receipts in the future.
934

935 21 Cost of Finished Products

936 Inventories Initial of finished products (Closing inventories. of finished products) Inventories Initial goods not
937 processed but sold in the state in which they were purchased goods not processed but sold in the state in which they
938 were purchased (Closing inventories of goods not processed but sold in the state in which they were purchased)
939 ?? In the presence of overhead costs in the reclassified profit and
940 loss account, the net income for the year in the final balance sheet differs from the income in the reclassified
941 profit and loss account by precisely the amount of the costs charged off-balance sheet. These amounts are
942 set off the books, and thus, without impact on the subsidiary's financial statements, by parent companies. In
943 the absence of accounting movements, these costs do not appear in the subsidiary's financial statements and
944 therefore only represent amounts included in the reclassification to assess the performance of the subsidiary's
945 management. Including this item allows for a better assessment of the subsidiary's characteristic performance.
946 This company is also "loaded" with the negative income components of which, although it does not make any
947 disbursements as the parent company bears them, it benefits from these amounts. 1. Revenue and cost from asset
948 non characteristic Management Non-capital assets are all income and expenses arising from capital investments,
949 constituting invested capital, which is not used in the company's core business. As noted in the preceding pages,
950 capital assets comprise two sub-aggregates, referred to as short-term assets and long-term assets, within which
951 those balance sheet items must be included, respectively maturing within the financial year or beyond the next
952 financial year not utilised in the company's core business.

953 Examples include civil buildings, securities and equity investments (please note that the above reclassifications

954 and remarks on profit and loss reclassified to cost of sales and revenues can be applied to all non-banking and
955 insurance companies).

956 If such non-characteristic balance sheet items result in revenues or if such investments require incurring costs,
957 the negative and positive income values are to be included in the asset management of the noncharacteristic
958 business activity of the enterprise.

959 **22 Income from financial management and financial**

960 management costs: All income and expenses arising from receivables or payables of a financial nature are to
961 be included under financial management. These amounts consist primarily of interest income and expenses
962 on current bank accounts or other financial debts and receivables. Following both national and international
963 accounting standards, exchange rate gains and losses are also shown in this aggregate. This is because exchange
964 rate activity is always considered, by the abovementioned standards, to be outside the purely typical business
965 activity.

966 3. Revenues and costs from non-characteristic activities by definition: concerning non-characteristic activities
967 by definition, it must be emphasised that the aggregate under consideration is often improperly identified with
968 the expression "extraordinary revenues and costs". The aggregate of extraordinary expenses/income, however,
969 does not coincide with the aggregate of non-recurring items by definition, as it is possible to identify numerous
970 accounting values that, although ordinary, identify income items of non-recurring nature (e.g. capital gains/losses
971 deriving from the sale of fixed assets connected to the regular replacement of assets within the production process).

972 The aggregate 'non-typical income and expenses by definition' must include items that, by their intrinsic
973 nature, relate to the performance of typical activities. We mean, for example, all capital gains/losses and
974 contingent assets and liabilities of both ordinary and extraordinary nature. 4. Taxes: tax management identifies
975 income taxes for the year. This item makes it possible to determine how much income tax has affected pre-tax
976 income, i.e. calculated gross of this cost.

977 It should therefore include neither taxes nor property taxes in this aggregate. The former because they identify
978 sums paid to obtain identifiable services, as opposed to taxes that are paid to be able to enjoy a range of services
979 provided by the public entity. On the other hand, wealth taxes are not included in tax management because the
980 requirement to be met with the identification of this aggregate is the determination of the percentage of produced
981 income subject to taxation.

982 As seen from the previous pages, the accounting items in the reclassified balance sheet within an integrated
983 information system are perfectly consistent and compatible with those in the profit-and-loss included in the same
984 information system. The integration between the two documents is essential as a basis for creating an integrated
985 information system. After having identified the most consistent structures from the point of view of integrating
986 the various accounting terms used in the balance sheet and the profit and loss, it is necessary to identify a cash
987 flow statement that is compatible and consistent with the documents mentioned above. The terms used in the
988 cash flow statement must also be perfectly consistent with those used in the reclassified profit and loss balance
989 sheet. Only in this way can all the documents be part of an integrated information system that presents an
990 accurate and effective integration and not just a formal one that is fallacious.

991 For this reason, it must identify the reporting scheme with the primary need of the analyst in mind, the non-
992 fulfilment of which significantly invalidates the clarity of the results obtained through the analysis of company
993 financial statements. The condition to which we refer relates to the circumstance that, for reasons of intelligibility
994 of the results, it should carry out the investigation using terminology endowed with substantial constancy of
995 meaning. Using the same terms with different definitions in the various areas of analysis causes a terminological
996 inconsistency that prevents the investigation from being considered as a whole. The in-depth scheme of financial
997 reporting represents a single entity within which the reclassification of the balance sheet, the restatement of profit
998 and loss and the preparation of the cash flow statement represent parts of a coordinated system. Introducing
999 a system, i.e. a set of interrelated elements, requires coordinating the various analysis tools. Using terms that
1000 are the same in form but different in substance constitutes an element of the system's imperfection. To analyse,
1001 by indexes and flows, a fluid set of congruent and coordinated features, it is necessary to prepare a set of
1002 schemes characterised by formal and substantial coherence. This coherence must be expressed in every part of
1003 the analysis to guarantee an overall uniformity of the results obtained and a possibility of reading that is not
1004 affected by potential interpretative errors.

1005 This need for terminological and substantive integration/correlation/uniformity is often undervalued. For the
1006 writer, on the other hand, it represents a must since, in the presence of a set of indices, reclassification schemes,
1007 statements, and flows. Information elements useful for control and planning characterised by formal and/or
1008 substantial heterogeneity, it is difficult, if not impossible, to succeed in extruding a coherent management line.
1009 The results of an analysis/ programming system serve not only to manage at firsthand but also to communicate
1010 objectives and achievements. The lack of a common language makes it impossible to share information about
1011 the past and the future. Therefore, an analysis/planning system must be characterised by an overall formal and
1012 terminological homogeneity, which, for obvious reasons, must, of necessity, also concern the reporting scheme.

1013 In the reclassification schemes of balance sheet and profit and loss, one can note the constancy of specific
1014 terms. The terms 'financial', 'equity', 'tax' and 'uncharacteristic by definition' deserve particular attention.
1015 These terms must have the same meaning in all documents constituting the integrated information system. They

1016 must therefore have the same meaning in the balance sheet, profit and loss, cash flow statement, and analytical
1017 documents that form the information structure of the so-called management control. In light of the considerations
1018 made in the preceding pages, the cash flow statement used in an integrated information system must be structured
1019 as follows:

1020 Cash flow statement template that can be used as part of an integrated business analysis Suppose one follows
1021 the rules illustrated in the preceding pages regarding preparing documents in an integrated information system.
1022 In that case, many of the limitations previously identified in the statements provided by the SFS95, ASC 230,
1023 IAS 7 and IAO (In Italian language OIC) No. 10 are abundantly overcome and eliminated.

1024 As we have seen above, the documents included in an integrated information system must be equally consistent
1025 with all the documents used in the socalled management control in which individual products, individual company
1026 sectors, individual departments, etc., are analysed. This is not the place to go into these documents in depth. But
1027 this is the right place to point out that this consistency must necessarily be present in all the documentation of
1028 the information system, including the balance sheet profit and loss cash flow statement, economic budget balance
1029 sheet financial budget and all the analytical management control documents relating to individual products,
1030 individual departments, individual sectors, etc. because, without this consistency, the system can never be said
1031 to be integrated. And the use of an integrated information system is a fundamental element so that it can
1032 make corporate decision-making based on understandable, correct, consistent and complete information. The
1033 formal consistency of the terms used in drafting the documents represents one of the fundamental elements of the
1034 integrated information system, the absence of which prevents any information system from being considered an
1035 actual management valuable tool for management to achieve, in an effective deficient manner, the maximisation
1036 of profit, financial and asset objectives.

1037 V.

1038 23 Conclusions

1039 In conclusion, these considerations regarding the cash flow statement and its importance in the company's internal
1040 decision-making process and, at the same time, in external communication to third parties, can be stopped that
1041 the international accounting standards, the American GAAP and the Italian national accounting standards
1042 IAO (Italian Accounting Organims, in italian language OIC) represent valuable points of reference to draw up a
1043 meaningful cash flow statement. Unfortunately, the presence of considerable limitations in the proposed schedules
1044 or the list of items presented by these standards invalidates the actual usefulness of the report recommended by the
1045 American and Italian international and national accounting standards illustrated in the previous paragraph. It
1046 can usefully employ the provisions of these standards for the external financial communication of a company since
1047 the presence of a standard to which all companies refer guarantees the consistency of the schedules proposed to
1048 the community by the company together with the balance sheet, the profit and loss and other possible documents
1049 constituting the financial reporting, as, in Italy, happens for the extra night. For internal company management,
1050 however, what is proposed by the accounting standards illustrated in paragraph 2 is not considered helpful for
1051 developing an efficient and effective decision-making process. And it is more appropriate to flank what has been
1052 disseminated externally with an integrated information system that also provides for reporting with a structure
1053 different from that offered by the international, American, and Italian standards illustrated above. The form we
1054 recommend is the one highlighted in paragraph 2, as it is characterised by consistency with all the documents that
1055 comprise the integrated corporate information system. Only implementing an integrated corporate information
1056 system will allow the company management to make the correct decisions to achieve the income, financial and
1057 equity objectives that the company has set itself. Regardless of the individual goals the company has established
1058 itself, each decision must be effective and efficient as possible, and this can only happen if all decisions are made
1059 based on consistent information. This requires consistency of terms and, thus, a formal consistency of structured
1060 documents in the integrated information system. This is why this article recommends that the report governed
1061 by the dog, international and Italian American principles illustrated in paragraph number 2 also be accompanied
1062 by the report described in the previous paragraph as the only form compatible with a genuinely integrated
1063 information system. ¹ ²

¹To 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.

²© 2022 Global Journals Does the Formal Structure of the Cash Flow Statement have an Impact on the Understanding of the Data Contained in the Report Explaining the Company's Financial Dynamics?

Changes in net working capital
Decrease/(increase) in inventories
Decrease/(increase) in receivables from customers
Increase/(decrease) in trade payables
Decrease/(increase) in accrued income and prepayments
Increase/(decrease) in accrued expenses and deferred income
3. Cash flow after changes in net working capital
Other adjustments
Interest received/(paid)
(Income taxes paid)
Dividends received
(Utilisation of funds)
Other receipts/(payments)
Cash flow from operating activities (A)
B. Cash flow from investing activities
Tangible fixed assets
(Investments)
Divestments
Intangible fixed assets
(Investments)
Divestments
Financial fixed assets
(investments)
Divestments
Financial assets not held as fixed assets
(Investments)
Divestments
(Acquisition of business units net of cash and cash equivalents)
Disposal of business units net of cash and cash equivalents
Cash flow from investing activities (B)
C. Cash flow from financing activities
Third-party funds
Increase (decrease) in short-term bank borrowings
Increase in loans
(Repayment of loans)
Equity
Capital increase against payment
(Repayment of capital)
Schedule 1: Cash flow from operating activities determined by the indirect method
Disposal (purchase) of
(Dividends (and interim dividends) paid) Cash flow from financing activities (C) 200X

A. Cash flows from operating activities (indirect method) Increase (decrease) in cash and cash equivalents ($A \pm B \pm C$)
Profit (loss) for the year
Income taxes
Interest expense/(interest income)
(Dividends)
(Gains)/losses on disposal of assets
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/losses on disposal
Adjustments for non-cash items that did not have a balancing entry in net working capital

1. Foreign Currency Matters, Subtopic 830-230
2. Development Stage Entities, Subtopic 915-230
3. Entertainment-Films, Subtopic 926-230
4. Financial Services-Depository and Lending, Subtopic 942-230
5. Financial Services-Investment Companies, Subtopic 946-230
6. Not-for-Profit Entities, Subtopic 958-230
7. Real Estate-General, Subtopic 970-230
8. Real Estate-Time Sharing Activities, Subtopic 978-230.

IV. Observations, Merits and
Informational Limitations of the
Structures Proposed by
International, American and Italian
Accounting Standards and a
Proposal for an Adequate Cash Flow
Statement as part of an Integrated
Information System for both
Internal Company Managers and
External Third Parties
Activities

1. Cash received from sale of goods or services
2. Cash paid to suppliers and employees
3. Receipt of dividends
4. Receipt of interests
5. Payment of interests
6. Receipt of insurance proceeds
7. Income taxed paid

Investing Activities

1. Acquisition of debt instruments of other entities
2. Sale of debt instruments of other entities
3. Acquisition of equity instruments of other entities
4. Sale of equity instruments of other entities
5. Acquisition of property, plant and equipment
6. Sale of property, plant and equipment
7. Capital expenditures
8. Payment for purchase of another entity

Financing Activities

1. Issuance of equity instruments
2. Payment of dividends
3. Repurchase of equity instruments
4. Proceeds from short-term borrowings
5. Repayment of short-term borrowings
6. Proceeds from issuance of bonds and other long-term borrowings
7. Repayment of bonds and other long-term borrowings

[Note: *]

Figure 2:

1064 [Webster and Yee ()] , T Webster , G Yee . *Web based energy information and control systems* 2021. River
1065 Publisher.

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