

21ST CENTURY CASH FLOW ACCOUNTING AND FINANCIAL PERFORMANCE OF QUOTED COMPANIES IN NIGERIA

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ABSTRACT:

Over the years, the Cash flow accounting and financial performance of quoted companies remain a contentious issue. This study examines the relationship between cash flow accounting and company performance of quoted firms in Nigeria. The purpose is to determine if there is any causal link influencing cash flow accounting on gross profit of quoted firms in Nigeria. Five years financial data on the components of cash flow accounting and company performance were extracted from published accounts of 24 sample companies listed on the Nigeria Stock Exchange (NSE) during the period 2008-2012. Data extracted were analyzed using Pearson Product Moment Correlation Coefficient, Multiple Regression and Partial Correlation Coefficient. With r-value of .789 and .998 the results respectively reveals the existence of significant positive relationship between cash flow accounting on gross profit of quoted firms in Nigeria. With r^2 value of .806. The study evidenced a positive and significant relationship between cash flow accounting on gross profit. The evidence of the study suggests that changes in cash flow accounting have varying effects on different measures of corporate performance in Nigeria. We therefore recommend that corporate financial managers should appropriately blend their CFA to sufficient profitability without sacrificing liquidity.

Keywords: *Cash Flow Accounting, Gross Profit, Company Performance, Corporate Profitability, Nigeria & quoted companies.*

INTRODUCTION:

Long but large, it has often been said that cash is the “lifeblood” of a business. This is very true. Without cash, a business cannot pay its employees or its suppliers and will soon fail. Therefore a financial statement which focuses on the flows of cash in and out of a business serves a useful purpose (Alan 2014; Nwaiwu, 2014). This is the function of a statement of cash flows and IAS statement of cash flows requires that all entities which comply with international standards should produce such as statement (Al-Attar & Hussain, 2004; Alves, Beeks & Yang, 2007). It might be thought that a profitable business would never run out of cash, but this is not the case. A business might report a healthy profit in its financial statements and yet suffer severe cash problems. Three reasons for this apparent paradox are as follows; profits are computed on the accruals basis (Shama & Salin, 2003; Eptein, 2008), A business which builds up large inventories has to pay for those inventories fairly quickly but their cost has no impact on reported profit until they are sold at some time in the future and the purchase of non-current assets has an immediate cash impact but filters through to the statement of comprehensive income only gradually received for a considerable period of time, especially if the business offers lengthy credit to its customers (Al – Attar & Hussain, 2004; Barth & Cramé, 2001; Alves, Beeks & Yang, 2007; Shama & Iselin, 2008; Givoly & Huga, 2009). The theoretical significance of these claims has been recently highlighted within the profession with such as Solomon (2002). Tergesen (2002) and Broome, (2004) citing incidents where the CFA has fallen victim to what is described as creative accounting or aggressive reporting techniques (Givoly & Hugu 2009; Brochet & Nam, 2009), therefore raising questions regarding the consequential reliability of this statement.

Given the recent number of high profile corporate accounting scandals attributed to creative or aggressive reporting techniques (e.g. Adelphia, Dynegy, Enron, Qwest, Tyco, World com, and eight Nigerian banks) many professionals are urging users of financial statements to take care when reviewing financial reports. This warning is clearly no longer restricted to the more traditional financial reports such as the statement of financial position and statement of financial performance but has been extended to what has generally been accepted as the more trustworthy (often used synonymously with the concept of reliable) cash flow statement. Tergesen (2002) has gone so far as to suggest that the CFA is now believed to be as vulnerable to manipulation as the calculation of net income itself, raising doubts about some of the current assumptions made by preparers, users, and to some extent, auditors, when reviewing CFA. Accordingly, certain advantages of the CFA noted in the past may indeed become weaknesses in the future, as users may place unwarranted trust in this financial report. Much of the general literature addressing “reliability” of financial information centres on the concept of creative accounting, aggressive reporting and (or) earnings management (Jones et al 1995).

This body of work raises several points that are believed to contribute to companies representing their financial statements in a way that is not within the spirit of good reporting practices. Key factors contributing to such behaviour were identified by Shah (1996) and include; the culture of the firm, unrealistic market expectations and problems associated with poorly worded (or non-existent) accounting standards. A growing number of authors have extended the concept of poorly worded accounting standards to include a lack of definitional clarity surrounding key terms and concepts within the accounting discipline (Hronsky & Houghton, 2001); Houghton & Houghton (2001) suggested that clearly –worded accounting

standards “reduce the justifiability of aggressive reporting decisions”, therefore reducing conflicts between the many players in the communicative process.

This is not a new issue in accounting with such authors as Fitzgerald (1936) raising concerns about the apparent defects in accounting terminology in the early 1900’s. Fitzgerald identified four key issues which he believed contributed to the lack of effective communication within accounting. These included; a lack of uniformity in the way that accountants use similar or like words, the use of words and terms which is foreign to the accepted CFA meaning in every day speech, the use of several terms to express the same idea and a lack of “—precision in the use of language”. Walters (2009) discussed the issue of miscommunication in accounting and believed that many of the issues of surrounding this problem could be resolved if accountants took the time to define terms, used in accounting, more precisely. It is the issue of empirical analysis of CFA and firm financial performance of quoted companies in Nigeria that is of interest to the current study, more specifically, issues surrounding the relationship between CFA and firm financial performance in developing country, Nigeria in particular. A further component to the study is the inclusion of the influence of a decision outcome analysis between CFA and financial performance, which assesses each subject’s variables to a series of cases, based on their allocated definition of cash flow accounting.

The rest of the paper is organized as follows: The next section briefly reviews the relevant literature and specified the main hypotheses of this study. Section 3 describes the research procedure adopted for the empirical analysis. Section 4 presents the main results and the discussion of the empirical investigation. Section 5 concludes.

Theoretical framework and Hypotheses Development

Although the first complete study regarding the agency theory was conducted by Jensen and Meckling (1976), yet the idea of free cash flow theory was originally proposed by Jensen (1986), in which free cash flow is defined as net cash flows after **deducting** the needs of positive NPV projects. Since free cash flow is financial resources at the management’s discretion to allocate, it is also called idle cash flows. Jensen (1986) argued that too much free cash flow would result in internal insufficiency and the waste of corporate resources, thus leading to agency costs as a burden of stockholders’ wealth. Jensen (1993) empirically examined the agency problem and thus asserted that free cash flow theory was accused of the main reason why the investment return in the USA companies fell below the required rate of return in 1980’s.

In additional to free cash flow, Jensen (1989)) argued that the self-interest motive of management was an important factor leading to agency costs. This was especially obvious when stockholders and management’s interests were in conflict and consequently stockholder’s interest was always dominated by managements. Brush et al (2000) asserted that weak corporate governance caused the inefficient in the allocation of free cash flows since the corporate board of directors was directly at the policies in favour of management’s interest at the expense of stockholders wealth.

The free cash flow theory states that when a company has generated an excessive surplus of free cash flow and there are not profitable investment opportunities available, management tends to abuse the free cash flow in hands so as to resulting in an increase in agency costs, inefficient resources allocation, and wrongful investment. Brush et al (2000)

found that sales growth was most beneficial to companies with sufficient free cash flow and thus supported the free cash flow theory. Chung et al (2005) also found that excessive free cash flow might have negative impact on corporate profitability and corporate liquidity and thus suggested the control hypothesis of institutional investors.

Not all empirical evidence supported the free cash flow theory. For instance, Gregory (2005) examined how free cash flow influences company performance based on the UK data and found that company performance with a higher level of free cash flow would perform better than those with a lower free cash flow level as evidence invalidating the free cash flow theory. In addition, the studies conducted by Szewczyk, Tsetsekos and Zantout, (2006) and Chang, et al (2007) discovered empirical evidence in support of the investment opportunity hypothesis that investors would most favour companies with both substantial free cash flow and profitable investment opportunities in stock valuation.

The free cash flow theory is consistent with much of the existing evidence on financial transactions. Jensen (1986) survey a number of event studies and found that of 3,230 of the announcement date stock return responses examined are consistent with the predictions of the free cash flow theory. A problem, however, with using the extent evidence as support for the free cash flow theory is that there is no assurance that firms include in the sample of these studies satisfy the free cash flow theory assumptions of excess cash flow. Evidence supporting the free cash flow theory must be based on a sample of firms for which the theory's assumptions are likely to hold. The present study attempts to address the problem.

Focus of birth of cash flow accounting and death of the funds statement.

Prior to the 1980's the term cash flow accounting was seldom seen in the accounting literature. Most of the references to the flow or movement in cash were denoted by the terms such as "net cash income", net cash generation, "cash income", and "cash funds generated from operations", to name a few (Mason, 2001). The introduction of the term cash flow accounting was not widely seen until the late 1980's, 1990's, although it was not until 1985 that the first country, Canada, replaced its "fund statement" with a close version of the modern day cash flow accounting. In the past two decades many other countries and/or regulatory bodies (e.g. US, UK, Australia, South Africa, the International Accounting Standards Board (IASB), and Nigeria) followed in Canada's footsteps (Donleavy, 2002).

The precursor to the cash flow accounting was the fund statement (or as it was also known: funds flow statements, statement of source and application of funds; or statement of changes in financial position). This statement was first seen in the USA in the early decades of the 1990's and the 1950's USA companies were experimenting with putting some form of fund statement in their annual reports (Wilson, 2009). It was believed to provide users of financial statements with additional information that allowed them to better assess the way in which operating profits translated into changes in working capital, or using the language proscribed by Health(2008), determining. "What happened to a company's profit? "This was reflected by the names assigned to this statement by some countries (e.g. Britain introduced the "statement of sources and uses of funds" Donleavy, 2002).

By the early 1960's, the fund statement, or variations on the same fundamental theme, was widely accepted and became part of, or a supplement to, the financial statements in many countries (Henry 2005). The importance of the statement was strongly supported by

researchers such as Summers (2008), Pankoff and Virgil (2010) and Chandra (2012), who suggested it was a critical component to the financial reporting package. Nevertheless, there were those who did not fully endorse its inclusion as a major financial statement. Their reasons become more apparent as the fund statement become the subject of strong criticism in the late 1970's (See Henry, 2005; Health, 2008). Irrespective of the opponents, the fund statement has already lined up beside the traditional balance sheet and income statement and became an integral supplement to company financial reports.

A study by Anton (2004) of 500 USA and Canadian corporations showed that by 1954, 30% of large companies already included some form of fund statement in their annual reporting package to shareholders, irrespective of the fact that it was not required by any reporting authority at that time. Over 10 years later the 19th annual edition of accounting trends techniques published by the American Institute of Certified Practicing Accounting (AICPA) showed that 65 percent of the 600 companies analyzed used some form of fund statement (Anonymous, 2005). However, it was not until the issuance of accounting principles Board Opinion NO. 19 in 1971 that it became mandatory disclosure (Henry, 2005). Similar situations become noticeable in other countries, and/or by their respective governing bodies (IASB, Canada, Australia, New Zealand, Nigeria). While originally welcomed by many countries, it become apparently by the late 1970's that the fund statement was going to be a permanent addition to the financial reports (or at least not in its current form). The two well documented problems noted by professionals and academics alike include: (1) the usefulness of the information and (2) the definition of the term "fund" and its consistency in application (Goldberg, 2001; Buzby & Falk, 2004; Clift, 2009; Chesley & Scheiner, 2008; Graci, 2008; Vicknair 2010; Lawson, 2011; Vent Cowling & Sevalstad, 2012).

Liquidity and Profitability Factors:

The approach to liquidity is an individual decision connected to the company's strategy. First, this approach is determined by decisions concerning the levels of inventory, receivables, cash, and payables (each of them being subject to management). Since the levels of current assets and liabilities follow from these decisions, the net working capital is the spontaneous result of management decisions. One could argue that in this situation managers make the best decisions, but without any overarching goal. Under the other approach, a certain level of net working capital is adopted in the context of capital structure management and set as a goal the managers should achieve through making adequate decisions. One can also consider the problem of short term credit as a method of raising cash "on demand" if the desired level of liquidity cannot be achieved. Waldran (2011) asks the following question: "If cash is king, what about its role as a determinant of shareholder value?" Many decision-makers emphasize the importance of cash, but there are proposals to squeeze it (Kaiser & Youg, (2009). This squeezing may free up some cash but it can also constrain the company's development. Filbeck and Krueger (2005) found that firms are able to reduce financing costs and/or increase the funds available for expansion by minimizing the amount of funds tied up in current assets.

They provided insights into the performance of surveyed firms across key components of working capital management and discovered that significant differences exist between industries in working capital measures across time. Moreover, Deloof (2001) investigated the determinants of liquidity reserves for large Belgium non-financial firms. The results confirmed the hypothesis that the terms of payment of inter-group claims can be adjusted to the firm's liquidity needs, thereby reducing the need for liquid reserves.

Furthermore, the results confirmed the transaction motive for holding liquid reserves, but only partially confirm the pre-cautionary motive. The results indicated that liquid reserves play a significant role in the financing of new investments. The choice between the strategies discussed here in depends on the company's development, and if a given company prioritizes quality, then working capital management will be more appropriate. If the financial goal to decrease the weighted average cost of capital prevails, then it is necessary to squeeze current assets. The most reasonable strategy would be to adopt a tradeoff between the presented approaches to achieve balance.

Traditionally, the main indicators of liquidity are the current ratio (CR), the turnover ratio (TR), working capital (WC) and the acid test (AT). High levels of these ratios indicate a firm with a good liquidity position, and they can be achieved by either keeping the levels of current asset (CA) high or the levels of current liabilities (CL) low. WC, indicates working capital (Inventory) and PBT, Profit Before Tax. Mathematically, these metrics can be expressed as follows:

$$\begin{aligned}
 \text{CR} &= \text{CA/CR} & - & - & - & - & - & - & - & (1) \\
 \text{TR} &= \text{CA-1/CL} & & - & - & - & - & - & - & (2) \\
 \text{WC} &= \text{CR/CL-} & - & - & - & - & - & - & - & (3) \\
 \text{AR} &= \text{CA-I-R/CL} & - & - & - & - & - & - & - & (4)
 \end{aligned}$$

The cash conversion cycle (CCC) in another liquidity indicator providing dynamic insights. Based on the model developed by Richards – Laughlin (1980), the CCC is define as the sums of the receivable conversion period (RCP) and the inventory conversion period (ICP) minus the payment deferral period (PDP), that is:

$$\begin{aligned}
 \text{CCC} &= \text{RCP +ICP – PDP} & - & - & - & - & - & - & - & (5) \\
 \text{Where: RCP} &= \text{receivables conversion period} = 360/\text{accounts receivable turnover.} \\
 \text{ICP} &= \text{Inventory conversion period} = 360/\text{inventory turnover} \\
 \text{PDP} &= \text{Payment deferral period} = 360/\text{accounts payable turnover}
 \end{aligned}$$

Hence:

$$\begin{aligned}
 \text{CCC} &= (360 \text{ R/Sales})+(360 \text{ 1 + CGS})-(360\text{CL/X}) & - & - & - & - & - & - & - & (6) \\
 \text{Where: X} &= \text{CGS + expenses + Interest + Labour + advertising + Insurance + travel} \\
 &+ \text{salaries – depreciation.}
 \end{aligned}$$

Therefore, the lower the CCC, the quicker the firm can recover cash from the sales of its products, the more cash it will have, and hence the more liquid it will be. If the CCC is high, it takes the company longer to recover cash. Thus, a high CCC would indicate a liquidity problem. The profitability ratios can be presented as follows. The Profit Before Tax (PBT) is given by the equation:

$$\begin{aligned}
 \text{PBT} &= & - & - & - & - & - & - & - & (7) \\
 \text{Where: RCP} &= \text{receivables conversion period} = 360/\text{accounts receivable turnover.} \\
 \text{ICP} &= \text{Inventory conversion period} = 360/\text{inventory turnover} \\
 \text{PDP} &= \text{Payment deferral period} = 360/\text{accounts payable turnover}
 \end{aligned}$$

The concept of economic value added was developed by stern Stewart & Company, a consulting firm, in the 1990's, and is derived from the concept of residual income as defined

in the late 19th century by A. Marshall. According to Marshall ((Johnson & Soenen, 2000), a company's earnings must be sufficient to cover its operating expenses in addition to the cost of its entire capital, including the cost of equity. Adjustments must be made to obtain a more useful formula of Eva and to better reflect economic reality, including incentive schemes. The adjustments did not appear in Marshall's concept.

The EVA system is based on three interrelated pillars: a valuation of the company, a measurement of value added generated, and the incentive system for the directors and employees. EVA takes into account these three areas. EVA contributes to the growth of wealth for shareholders, because the proper functioning of the EVA system requires the use of all of these elements. This measure is a comprehensive tool for assessing the profitability of investment for investors because it ensures consistency between monitoring a company's operational performance and its share price in the market. According to Ehrbor (1999), EVA allows all financial decisions to be modeled, monitored, evaluated, communicated, and compensated in terms of a single measure, and provides common language for employees". The EVA concept makes adjustments in accounting results in individual companies and eliminates accounting disruptions. This causes profit to be treated as an economic category (Johnson & Soenen, 2000) and the resulting level of EVA is reflected in the valuation made by the market even if no such a relation was observed in the polish market. For this reason, the measurement of a company's performance based on company value is important for the investors and management alike.

There is no single method of calculating the value of the EVA ratio. This is not because the measure is not a standard one but it requires adjustment the specific characteristics of particular company. For example, Ehrbor (1999) points to a distinct methodology for estimating EVA based if external analysis is made by investors. The main problem with calculating EVA is to include all the necessary information. It is not possible to estimate EVA based on partial data, for example, without access to future lease payments, capitalized expenditures on research and development, LIFO inventory valuation, etc. the factors discussed above represent the main ratios indicating a company's position as assessed by stock exchange participants. One may expect that other factors may also be relevant, but at the beginning of our research we decided to start with the most common indicators.

Empirical studies:

Extensive studies have been conducted in many countries into the relationship between cash flow accounting and firm financial performance (for example, Ang, Cole & Lin (2000) and Barth & Crame (2001) in Australia; Sharma & Iselin (2003), Broome (2004), Gregory (2005) in USA, Chang, Firth & Kim (2005), Givoly & Hugu (2009), Authur & Cheng (2010) in the United Kingdom; Dickinson (2011) Ingran & Lee (2012) in Hong Kong; Abdullahi (2012) in Jordan.

Empirical attention on Developing and Less Developed Countries (DIDCs) has been scarcity, notable exceptions being the works of (2004) on Nigeria. In reality, developed countries (DCs) are research conscious and research supportive, unlike DLDCs. In DCs, corporate executives and public officials have a better cultural sense of value of research; they also recognize the need for conceptual framework as a prolegomenon to policy formulation, and offer funding and other logistic support for research, including making data readily availability in the public domain. In contrast, public policies in most IDCs, especially sub Saharan Africa, tend to be guided by and crafted as "the spirit directs" the minister or

government official. The development trajectories of accounting in DCs – namely, independent discipline framework and the microeconomic approach – seem to have influence their practice (Wilson, Tsegba & Sar, 2013).

Expectedly, therefore, cash flow activities, working capital, profit before tax and firm size should enhance the achievement of certain operational, tactical and even strategic objectives of the organization. For instance, Shin & Seonen (1998) studied a large sample of 58,985 firms for a period of twenty years and found a strong negative relationship between CFA and corporate profitability (PBT) of listed companies in America, and opined that, managers can create profits for their companies by handling correctly the cash conversion cycle (CCC) and keeping each component of CCC at optimal level. This is an improved conclusion, since mere shortening of the CFA may lead to loss of valuable customers leading to loss of sales, thus, translating to loss of profit. In line with the above KPMG (2005) asserted that a reduction in the CFA releases liquidity and influence directly on the company's financial position as well as the company's returns. Moreso, Raheman & Nasr (2007), studying a sample of 94 Pakistan firms found a strong negative relationship between the components of working capital and profit before tax, indicating that as the CFA increases it will lead to decreasing profitability and liquidity. Sadlovska & Viswanathan (2007) pushed is assertion further in their survey which revealed that the best performing companies have CFA that is about 5-6 times shorter than that of the average and low performing ones.

Conversely, a number of theoretical & empirical arguments can also be filtered in favour of a direct and positive relationship between CFA and Profitability. For instance, (Shin & Soenen, 1998) argued that a firm can have larger work capital with a generous credit policy, which extends the cash cycle. In this case, the longer CFs might increase profitability because it leads to higher working capital. The above arguments support the findings of Lyrroundi & Lazaridis (2000) who studied this relationship among the food industry in Greece and found a positive and significant relationship between CFA and profitability (measured by PBT) and liquidity measured by working capital). This result indicates that a longer CFA may improve company's probability and liquidity.

But does increase in corporate activities necessarily lead to increase in profit and liquidity? Lavelly (2006), Wilson (2014) thinks the answer to this is No. when they asserts that "high CFA doesn't necessarily equate to high profit and liquidity", and argued that a firm losing money each time it sells cannot make it up in volume. Also, corporate profitability might also decrease with the CFA, if the costs of higher investment in working capital rise faster than the benefits of holding more inventories or granting more trade credit to customers. Although; there two sources abandoned this belief after their empirical investigation revealed the contrary, yet, the sense in their arguments requires further examination.

Studies about the moderating influence of firm size (Total Assets) on CFA and Firm Financial Performance have yielded mixed results, for example, Lyons (1991), Chen, Chen & Su (2001), Broome (2004), Hodder & Hopkins (2008) report no significant relationship between total assets on working capital and profit before tax. However, Wallace & Collier (1991), Bowen (1996), Korek & Willinger (1996) found significant positive relationship. In a similar development investigations into the effect of firm size on firm performance and CFA have also yielded mixed results (see Al-Attar & Hussian, 2004; Authar & Cheng, 2010).

Hypotheses:

The major hypotheses of this study is a derivative of the foregoing disclosure, leading us to predict a prior a positive relationship between CFA and firm financial performance of quoted companies in Nigeria. We therefore hypothesize in the null form that:

- H₀₁: There is no significant relationship between CFA and Companies Performance of quoted firms in Nigeria.
H₀₂: Cash flow accounting does not exert any significant influence on gross profit of quoted firms in Nigeria.

Methodology and Research Design

In order to test the above mentioned hypotheses, the following regression model was developed to fit the Nigerian context to assess the relationship between CFA and firm financial performance on one hand and the moderating influence of firm size on CFA and Company performance for Nigerian companies listed at the Nigeria Stock Exchange (NSE).

$$CP = \alpha + \beta_1 CFA + \beta_2 GP + e \quad (1)$$

Where

- CP = Company Performance
CFA = Cash Flow Activities or Accounting
GP = Gross Profit
 α = Vertical Intercept
 β = Regression coefficients
e = The error term

The sample for the regression model is 24 selected companies listed in NSE based on the availability of data during the period of the study, because the NSE contains 120 non-financial companies, but most of them have been recently listed and have no public data for these years. A multiple linear regression analysis, Pearson Product Moment Correlation Coefficient, and partial correlation coefficient, through the help of SPSS 20.0 is used for 5 consecutive years 2004-2008 as the majority of companies were listed in the last 5 years to assess the relationship, influence and moderating influence of firm size on CFA and firm financial performance.

4.1 Empirical Results and Discussions

This section presents our empirical results. We first examine the relationship between CFA and firm financial performance and then examine the moderating influence of firm size on CFA and firm of quoted companies in Nigeria.

- H₀₁: There is no significant relationship between cash flow accounting and company performance of quoted companies in Nigeria. The results of our analysis are presented in table 1 below as follows:

Table 1: Relationship between CFA and Company Performance of quoted firms in Nigeria

		Cash Flow Activities	Corporate Profitability
Cash Flow Activities (opa, fina & inva)	Pearson Correlation	1	.760
	Sig. (2-tailed)		.000
	N	24	24
Corporate Profitability (operating profit & PBT)	Pearson Correlation	.760	1
	Sig. (2-tailed)	.000	
	N	24	24

** correlation is significant at the 0.01 level (z – tailed)

Table 1 above, presents the test results on the relationship between CFA and corporate profitability (CP), using Pearson Correlation, with an r value of 0.760 significant at 1% probability level. The result indicates existence of significant positive relationship between CFA and CP. We therefore reject the null hypotheses that “There is no significant relationship between cash flow accounting and corporate Profitability. This research finding is consistent with results in previous conducted by Alves, Beekes & Young (2007).

H₀₂: cash flow accounting does not exert any significant influence on gross profit of quoted firms in Nigeria. The result of our analysis is presented in the table 2 below as follows:

Table 2: The influences of Cash Flow Accounting on gross profit of quoted companies in Nigeria.

Variables/Test Statistics	Linear	Exponential	Semi-log	Double log
Constant	1.606 E9* (1.665)	20.870*** (64.100)	-3.658E 10* (-2.165)	9.197*** (3.334)
Opea	1.340*** (6.988)	2.146E – 10** (3.317)	2.270E*** (3.295)	.419*** (3.718)
Fina	-.890*** (-4.000)	-1.376E.10* (-1.833)	-5.965E 5** (-.396)	-.141* (-.568)
Inva	-.297** (-1.902)	-5.226E-11* (-992)	3.058E 8** (1.224)	.301* (1.348)
R	.899	.664	.630	.767
r ²	.806	.441	.397	.589
F – ratio	28.038***	5.244***	4.397***	9.555***

N/B: *** = Significant at 1%, ** = Significant at 5% and * = significant at 10% and above. t. value is shown in parenthesis..

Table 2 above, presents the test results on the influence of cash flow accounting on Gross Profit, using Multiple Linear Regression Analysis (MLRA). In terms of the number of significant variables and the statistical values of the correlations coefficient (r) of .899, coefficient of determination (r^2) of .806, and f-ratio, 28.038. The linear function yields the line of best fit and is accordingly used in our discussion. The linear form produced a correlation coefficient r of .899 indicating a strong relationship between CFA and CP with an (r^2) of .806. The study explains 80.6% of the changes in CP. Only two of the three components of CFA (Fina and Inva) exert significant positive effect on GP, hence we accept the null hypotheses and conclude that CFA significantly affect the GP of quoted firms in Nigeria. The finding is inconsistent with previous studies by Krause and Murdoch (1990); Finger (1994). Who found a negative causal link between Operating and Financing Activities on Gross Profit of quoted firms in Nigeria.

Conclusions:

Since Jensen and Meckling (1976) elaborated on the free cash flow theory arguing that the self-interest motive of management could incur cash flow costs burdening the wealth of stockholders, the study of cash flow theory has been an important subject in corporate finance. Therefore, the study aimed to empirically examine the relationship between cash flow accounting and company performance of quoted firms in Nigeria.

With the data of publicly listed companies on NSE, there are three major points drawn from the evidence presented in the study, first, the results indicate existence of significant positive relationship cash flow accounting and company performance. Yet the relationship is contrary. Cash flow accounting could increase the incentive for management to perquisite consumption and shirking, thus leading to an increase in cash flow costs. Meaning that cash flow accounting flows could render a firm with investment opportunities which would generate more values for the firm. Therefore, cash flow accounting has a positive influence on gross profit. This finding is consistent with the UK evidence found in Gregory (2005). It is difficult to determine whether there exist a direct linkage between cash flow accounting and company performance of quoted firms in Nigeria.

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