



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: C  
ADMINISTRATION AND MANAGEMENT  
Volume 22 Issue 5 Version 1.0 Year 2022  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

# 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?

By Prof. Maria Silvia Avi

**Abstract-** The financial analysis of a company, implemented through ratios alone, can lead to making completely erroneous judgements about the dynamic development of the company's income and expenditure. For this reason, cash flows and the statement that summarises them represent essential elements of the study of the company's financial performance. Various international bodies have addressed this issue since, in most countries, the cash flow statement now identifies one of the elements that make up the financial reporting for the year, on par with the balance sheet and profit and loss. Here we will take a closer look at the central bodies that have addressed this issue and illustrate what has been said about cash flow and the cash flow statement by the American FASB, the IASB, the Italian Civil Code and the Italian Accounting Standards Board. As you will see, all of these bodies propose structures or examples of items requiring the highlighting and re-grouping of needs and sources into three aggregates: operating activities, investing activities and financing activities. Subsequently, we will point out that information limitations characterise these statements.

**Keywords:** cash flow Statement, cash flow, net working capital, cash flow, formal structure of the cash flow Statement, operating activities, financing activities and investing activities, direct method of drafting cash flow Statement, indirect method of preparing cash flow Statement.

**GJMBR-C Classification:** DDC Code: 658.15224 LCC Code: HD30.28



Strictly as per the compliance and regulations of:



# 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?

Prof. Maria Silvia Avi

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

**Keywords:** cash flow Statement, cash flow, net working capital, cash flow, formal structure of the cash flow Statement, operating activities, financing activities and investing activities, direct method of drafting cash flow Statement, indirect method of preparing cash flow Statement.

## 1. THE FINANCIAL DYNAMICS OF BUSINESS: INTRODUCTORY CONSIDERATIONS<sup>1</sup>

A company's financial and asset analysis requires the performance of two complementary types of research that complement each other.

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

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

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

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

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

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

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

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

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

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

The most commonly used financial ratios for understanding a company's financial situation are as follows:

- Current ratio
- quick ratio
- - coverage ratio of long-term assets
- - coverage ratio of long-term assets with internal sources of wealth
- - ratios of composition of invested capital
- - source composition ratios
- - degree of asset depreciation
- - ratio of wealth creation and maintenance capacity
- - debt ratio
- - ratio of intensity of short-term bank financing
- - ratio of overall financing intensity
- - ratio of gross income coverage capacity
- - ratio of capacity of capital to create cash flow
- - ratios of financial sustainability of growth
- - ratio of average duration loans
- - ratio of average duration of debts

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

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

must be aware of whether the values contained therein are significant. Suppose some values contained in balance sheets are "extraordinary" or "transitory". In that case, the analyst must highlight this situation and, necessarily, be able to express a judgement on the basis, simultaneously, of the analysis of the "abnormal" punctual data and of the values that, after a few days, those accounts take on.

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

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

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

However, it must be pointed out that, in reality, carrying out a complete analysis of the company's financial situation requires, in addition to the instruments indicated above, other means of in-depth accounting. Let us suppose, for example, that we wish to carry out an analysis by indexes, systematic and characterised by the simultaneous consideration of all the elements of helpful knowledge for the interpretation of the quotients themselves. One must ask oneself the following: does compliance with the three conditions mentioned above (implementation of a systematic, systematic analysis, supplemented by the in-depth consideration of extra-financial reporting considerations) make the results of the financial study complete, exhaustive and reliable? The answer is no. To demonstrate this, consider this simple example:

Let us assume that a company is characterised by a current ratio demonstrating financial strength. Let us imagine that its value, referring to the end of a given year, is 1.5 and let us assume that, compared to previous years, there is a constant trend or one characterised by small changes in the range between 1.3 and 1.5. The latter circumstance demonstrates perfect short-term financial equilibrium. Suppose the analysis was to end with an in-depth examination of this ratio and other financial ratios. In that case, one could conclude that the company is characterised by a short-

term financial solidity that does not create any particular problems or shows an ideal financial situation. However, stopping at analysing a ratio of several financial ratios would be a grave mistake because the apparent financial equilibrium established by the ratios could hide a dynamic imbalance that the ratios, precisely because of their structural characteristics, could never show. Let us suppose that we analyse the company's next year's data and learn that the financial and, therefore, in our context, monetary revenues expected for the following year derive from obtaining a loan from a financial institution. Assume that future expenditures, on the other hand, arise from the ordinary course of the company's core business and thus relate to the purchase and subsequent payment of wages, purchase of raw materials and amount of utilities. Since the objective of this example is merely to highlight the limitations of indices, the items considered here as requirements and monetary sources are limited to facilitate the understanding of the concept being illustrated. Against this background, the balance shown by the current ratio appears decidedly overstated concerning an overall judgement of the company's financial situation. In the following period, the consideration of the type of income and expenditure tarnishes the importance of the above ratio and sheds new light on the interpretation of ratios. Ratios analysis, even if it is carried out systematically and systematically, cannot allow in-depth consideration of the monetary income and expenditure that the enterprise has had or will have in the future. This is not because the financial ratio is incorrectly calculated. Still, because the ratio is in itself static and therefore lacking in information concerning income and expenditure, it is the quality and characteristics of the latter that have occurred or will occur in the period under consideration. These considerations do not make it possible to develop a dynamic financial and monetary analysis using the ratios tool, whose objective is the quantitative and qualitative deepening of financial and monetary sources and requirements. Considering these considerations, one can understand how the ratios analysis must be deepened by another tool that identifies the company's financial and monetary income and expenditure. Only in this way can the financial analysis be considered complete.

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

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

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

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

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

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

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

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

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

Analysing the above cases, one can see that examples have developed that cover every accounting event of financial reporting:

- ▶ an increase in activity;
- ▶ a decrease in assets;
- ▶ an increase in liabilities;
- ▶ a decrease in liabilities;
- ▶ an increase in equity;
- ▶ A decrease in net assets;
- ▶ a cost;
- ▶ and finally, revenue.

Generalising the above examples, it can be said that:

- ▶ an increase in an asset corresponds to a requirement;
- ▶ a decrease in an asset corresponds to a source;
- ▶ an increase in liabilities corresponds to a source;
- ▶ a decrease in a liability corresponds to a requirement;
- ▶ an increase in an equity item corresponds to a source;
- ▶ a decrease in an equity item corresponds to a requirement;
- ▶ a cost corresponds to a requirement;
- ▶ and a revenue corresponds to a source.

At this point, one must ask whether the values thus determined to identify real income or expenditure flows, i.e. actual cash flows. In reality, even from a very superficial analysis, one can see that the simple rules identified above do not allow the identification of correct cash flows. As an example, it is sufficient to consider the case of an increase in assets. Suppose the land increases from 100 to 160. According to the rule identified above, it would have to be said that a cash flow requirement has occurred for this increase. Considering the business reality, however, one might find this is false. Take, for example, the case where the rise in land depends on a shareholder contribution or the point where the increase in the value of the long-term asset results from a mere revaluation. Or, again, the rise in land is connected with a purchase in which the debt has not yet been settled. In all these cases, the increase in land value is not matched by any actual cash flow. For this reason, we can state that the needs and sources illustrated above only and exclusively identify mere apparent flows, that is, values that only apparently create a need or a reference but which, on analysis of the facts, may conceal transactions that do not affect cash and which, consequently, do not create actual flows. Based on these considerations, we can identify the following automatic rule: the accounting change in values only provides evidence of apparent flows, which, however, do not always turn into actual cash flows.

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

The calculation of actual cash flows requires the performance of two steps:

Eliminate all apparent needs and sources that have no impact on cash. It is evident that if an obvious flow identifies a mere accounting change that did not have a corresponding cash flow, it is necessary to eliminate the amount as having no monetary significance

Separation of so-called 'sum flows': two actual cash flows of opposite signs often correspond to an apparent flow. Consider, for example, the case where land increases in value. Let us also assume that the increase is connected with a movement characterised by a cash impact. The increase in the value of the land may correspond to a purchase equal to the difference in the initial final deal or to an annuity occurring at the same time as a purchase. If this second hypothesis appears, the natural flow is not one but twofold. Thus, an increase in land value would have to be matched by an authentic source equal to the value received due to the sale and a real need equivalent to the purchase of new land. The separation of the sum transactions is highly relevant because only by identifying the real market and the actual source in separate motion is it possible to identify the actual cash flows occurring in the period under consideration.

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

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

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

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

After finishing the worksheet, it is necessary to move on to interpreting the data obtained. Understanding the dynamic financial situation requires that the values of flows identified using worksheets or other accounting tools be correlated to highlight the presence of balance or imbalance between items that must interpret simultaneously. To achieve this, a summary document must be drawn up. Since, often, those analysing the data do not have specific technical skills in accounting, it is necessary to draw up a document that simultaneously achieves two objectives

1. Summary of the results obtained within the worksheet;
2. Illustration of the results through a document that can be understood even by a non-accounting expert.

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

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

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

In the following pages, we will make a brief analysis of the schemes proposed by the leading national and international bodies, and we can already anticipate that these schemes do not provide important information that is instead required both to manage the company and to understand, from the outside, the dynamic financial situation of the company itself ap. At this point, one must ask whether the substance, which is the same in all schemes, prevails over the form, presenting different structures in the various cash flow statements regulated by accounting standards or doctrinal proposals. After analysing the numerous structures, comparing the various forms proposed at the national or international level by bodies and scholars, and after highlighting the limitations of these structures, we will offer the drafting of a sketch flow statement structure determined and studied in the context of an integrated information system, the definition and characteristics of which will be the subject of the next paragraph.

## II. THE FORMAL STRUCTURE OF THE CASH FLOW STATEMENT ACCORDING TO IAS/IFRS, US GAAP PRINCIPLES FASB 95 AND ASC 230, PRINCIPLES IMPOSED BY ITALIAN NATIONAL LEGISLATION, ITALIAN NATIONAL STANDARDS OF ITALIAN ACCOUNTING ORGANISM (HENCEFORTH IAO, IN ITALIAN LANGUAGE OIC))

### a) *International las 7 Standard*

The formal structure of the cash flow statement is the subject of a plurality of accounting standards issued by various national and international bodies. In this paragraph, we will focus our attention on the formal principles imposed by the international accounting standard IAS No. 7, the American GAAP standards FAB95 and ASC 230, and the regulations set by Italian national legislation, which, in essence, refers to the rules to be applied in structuring the cash flow statement to the Italian national accounting standards issued by the IAO (Italian accounting organism, henceforth IAO, in Italian language OIC). Here, we will limit ourselves to listing the various accounting principles relating to the cash flow statement without making any observations on the merits and limits of the structures proposed by the different accounting principles. The comments, in terms of the values and limitations of the structures presented by the various accounting principles, will be made in the following paragraph, where we will also propose a form of the statement that, independent of any accounting principle structure, summarises the merits that can be assigned to the international, American and Italian accounting principles and, at the same time, overcomes the limits that can instead be connected to such structures.

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

the advice to use the cash flow statement expressed only in terms of cash flows, giving information, to avoid errors, of what should be meant by cash flow.

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

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

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

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

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

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

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

As far as the IAS/IFRS accounting standards are concerned, the cash flow statement is not governed by a compulsory structure at an elevated level. In fact, the international accounting standard merely highlights the potential content. It indicates a few examples of accounting items that must include in the various aggregates provided by the accounting standard.

The international accounting standard IAS, 7 stipulates that it must include the following aggregations of inflows and outflows in the cash flow statement:

1. Operating activities
2. Investing activities

### 3. Financial activities

IAS 7, in defining the three activities that must be the points of reference for regrouping all cash inflows and outflows, provides definitions of operating activities, investing activities and financial activities.

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

\*receipts of sales of goods and services made by the enterprise

\*payments made to employees, collaborators, or others working under forms of contract other than employment with the enterprise

\*payment of income taxes unless they can be identified explicitly with investment financing transactions (in which case it can see that the communicative effectiveness of the concept is certainly not excellent)

\*receipts of tax credits arising from previously paid income tax surpluses unless they can be identified explicitly with investment financing activities. the considerations made for the previous item also apply to this item

\*receipts arising from contracts held for trading or trading purposes in respect of sales or purchases of goods and services

\*payments arising from contracts held for dealing or trading purposes to trade in sales or purchases of goods and services

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

this concept must be included in investing activities. By way of example, the international accounting standard cited above notes that it must consist of the following within investing activities:

\*Payments made to support capitalised development costs and internal construction of any kind

\*receipts from the sale of fixed assets that are replaced due to economic and physical obsolescence, such as receipts from the sale of buildings, plant and machinery and equipment that are to be replaced with more innovative assets

\*receipts from the sale of other long-term assets or other long-term assets

\*payments made in cash for the acquisition of equity or debt instruments of other companies

\*payments made to implement interests in joint ventures

\*Cash receipts from sales of equity or debt instruments of other enterprises or interests in joint ventures

\*Cash advances and loans made to third parties, other than advances and loans made by a financial institution or bank, as it will include this item in financing activities

\*Cash receipts from the repayment of loans and advances made to third parties, other than advances and loans made by a financial institution

\*cash receipts arising from the repayment of advances and loans made to third parties

\*Cash payments made for entering into futures contracts, option contracts or swap contracts unless the enterprise holds the contracts for trading purposes and the payments are classified as financing activities

\* cash receipts made from the conclusion of futures contracts, option contracts or swap contracts, unless the arrangements are in possession of the enterprise for trading purposes and the payments are classified as financing activities

Finally, concerning financing activities, the international standard IAS 7 defines why it is relevant to show these flows separately. The standard emphasises how important it is to aggregate the financial values because it is indispensable to forecast the demands of future cash flows from the company's capital suppliers. The aforementioned international standard gives some examples of items, understood as requirements or sources, which must include in financing activities. The examples highlighted and the international standard cited are as follows:

\*receipts from the issue of shares or other instruments identifying the capital of an enterprise

\*cash payments to shareholders for the purchase or redemption of shares in the company

\*cash receipts from the issuance of bonds, loans, mortgages or any other short-term OR long-term financing

\*cash outflow resulting from the repayment of sums arising from loans previously obtained by the company

\*cash payments resulting from the reduction or cancellation of the residual liability of a lease contract

International Accounting Standard IAS 7 concludes the analysis of the cash flow statement with an in-depth examination of some items that require particular explanation according to the international organism that issued the standard. In highly synthetic terms, these items can be summarised as follows:

*Foreign currency cash flow:*

"cash flows Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows"

*Interest and dividends:*

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

*Taxes on income:*

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

Changes in ownership interest in subsidiaries and other business:

"The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities"

Changes in liabilities arising from financing activities

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

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

Conversely, the indirect method adds to or subtracts from the operating profit or loss all non-monetary costs and revenues, the net working capital delta, and the items that prevent this sum from identifying a cash flow. With the indirect method, therefore, one starts from the profit and arrives at the cash flow through the addition or elimination of non-monetary items or the Delta of all receivables and payables and inventories that allow one to transform the costs and revenues implicitly included in the profit or loss for the year into a cash flow. In the writer's opinion, the direct method is much more effective in communication, while the indirect approach is less

comprehensive. The IAS 7 standard suggests using the direct method while permitting the indirect way.

### III. PRINCIPLES INDICATED BY ITALIAN LEGISLATION AND ACCOUNTING PRINCIPLE NO. 10 CASH FLOW STATEMENT ISSUED BY THE ITALIAN ACCOUNTING ORGANISM (IAO, IN ITALIAN LANGUAGE OIC)

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

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

On 20 August 2014, Law No. 116 of 11 August 2014, converting Decree-Law 91/2014, was published in the Official Gazette, recognising the role and functions of the ITALIAN ACCOUNTING ORGANISM (HENCEFORTH IAO, IN ITALIAN LANGUAGE OIC)). The law supplements Legislative Decree 38/2005 with Article 9-bis. This Article provides that:

Article 9-bis - Role and functions of the IAO (Italian Accounting Organism (Henceforth IAO, in italian language OIC))

1. The IAO (Italian Accounting Organism (Henceforth IAO, in italian language OIC)), the national accounting standards institute:
  - a) Issues national accounting standards, inspired by best practice, for the preparation of financial statements following the provisions of the Italian Civil Code;
  - b) Provides support to the activities of Parliament and Government Bodies on accounting regulations and expresses opinions when required by specific legal provisions or at the request of other public institutions

c) It participates in the process of developing the international accounting standards adopted in Europe, maintaining relations with the International Accounting Standards Board (IASB), the European Financial Reporting Advisory Group (EFRAG) and the accounting bodies of other countries.

Concerning the activities under a), b), and c), it coordinates with the national authorities competent in accounting matters.

2. In exercising its functions, the IAO (Italian accounting organism (henceforth IAO, in the Italian language OIC) pursues public interest purposes, acts independently and adapts its statute to the canons of efficiency and economy. It reports annually on its activities to the Ministry of Economy and Finance.

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

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

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

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

transactions to obtain and return cash in the form of risk capital or debt capital."

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

Principle IAO (Italian accounting organism, in Italian language OIC) n. 10 states that:

"Operating activities

Cash flows from operating activities generally include cash flows arising from the acquisition, production and distribution of goods and the provision of services, even if they relate to incidental operations, and other flows not included in investing and financing activities.

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

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

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

The profit/loss for the year is adjusted for changes in net working capital in the following circumstances (by way of example) an increase in trade receivables is subtracted from profit (loss) for the year, as this increase represents the lower amount collected from customers with respect to revenue accrued during the year and credited to profit and loss; conversely, a decrease in receivables is added to profit (loss) for the year, as this represents the higher amount of receivables collected with respect to revenue accrued during the year and credited to profit and loss; an increase (decrease) in trade payables is added to (subtracted from) profit (loss) for the year as it represents a portion of production costs not yet paid (or a part of production costs spent in excess of accrued expenses); the increase (decrease) in inventories is subtracted from (added to) the profit (loss) for the year IAO (Italian Accounting Organism (Henceforth IAO, in Italian language OIC)) while in the calculation of profit, the costs of production are considered, which include not only purchases but also the change in inventories, while for changes in cash only purchases are relevant. By way of example, in the case of an increase in inventories of goods, this increase is subtracted from the profit (loss) for the year since, during the year, the purchases made exceeded the goods sold by an amount equal to the difference between the closing (higher) and opening (lower) inventory. By subtracting the change in stocks from the profit/loss for the year, the economic effect is neutralised so that the statement only reflects the impact on the financial position of the cash used for purchases during the year; the increase in accrued expenses is added to the profit/loss for the year as this increase represents the higher amount of costs not yet paid through cash compared to expenses charged to profit and loss.

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

#### \*Investing activities

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

By way of example, cash flows generated or absorbed by investing activities derive from purchases or sales of buildings, plants, equipment or other tangible fixed assets (including tangible fixed assets of internal construction); purchases or sales of intangible fixed assets, such as patents, trademarks, concessions; these payments also include those relating to capitalised deferred charges; acquisitions or disposals of equity investments in subsidiaries and associates; acquisitions or disposals of other equity investments; acquisitions or disposals of other securities, including

government securities and bonds; disbursements of advances and loans made to third parties and collections for their repayment.

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

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

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

#### \*Financing activities

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

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

#### a) *Particular Cases of Cash Flows*

##### *Interest and dividends*

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

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

Interest and dividend cash flows are presented separately in the cash flow statement; therefore, no single amount of dividends and interest is reported in the cash flow statement. The classification of interest and dividend cash flows is kept constant over time. 9 Income Taxes

Cash flows related to income taxes are separately disclosed and classified in operating activities. Examples of cash outflows are: the payment of taxes to tax authorities, including charges on account of taxes. Examples of cash inflows are: payments received from tax authorities, including surpluses and refunds. Foreign currency cash flows

Cash flows arising from transactions in foreign currencies are recorded in the company's financial reporting in euros by applying to the foreign currency amount the exchange rate between the euro and the foreign currency at the time the cash flow occurs.

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

The effect of exchange rate changes on cash held in foreign currencies is presented separately from cash flows from operating, investing and financing activities. Derivative Financial Instruments

Cash flows arising from derivative financial instruments are presented in the cash flow statement in investing activities.

Suppose a derivative financial instrument (e.g. a futures, forward contract, option, swap) is designated as a hedging instrument. In that case, the related cash flows are presented in the same category as the cash

flows of the hedged item (e.g. a medium- to long-term loan). The cash inflows and outflows of the hedging derivative are reported separately from the cash flows of the hedged item. Purchase or sale of business units

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

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

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

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

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

Principle iao (italian accounting organism (henceforth iao, in italian language oic)) n. 10 the cash flow statement

**Appendix A - Reference Schedules for the Preparation of the Cash Flow Statement**

This appendix is an integral part of the standard.

**Schedule 1: Cash flow from operating activities determined by the indirect method**

	200X	200X-1
<b>A. Cash flows from operating activities (indirectmethod)</b>		
Profit (loss) for the year		
Income taxes		
Interestexpense/(interestincome)		
(Dividends)		
(Gains)/losses on disposal of assets		
<b>1. Profit (loss) for the yearbeforeincome taxes, interest, dividends and capital gains/losses on disposal</b>		
Adjustments for non-cash items thatdidnothave a balancing entry in net working capital		
Allocations to provisions		
Depreciation of fixed assets		
Write-downs for impairment losses		
Value adjustments of financial assets and liaoilities of derivative financialinstrumentsnotinvolving a monetarymovement		
Otheradjustments for non-monetary items		
<b>2. Cash flow beforechanges in net working capital</b>		

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		
<b>3. Cash flow after changes in net working capital</b>		
Other adjustments		
Interest received/(paid)		
(Income taxes paid)		
Dividends received		
(Utilisation of funds)		
Other receipts/(payments)		
<b>Cash flow from operating activities (A)</b>		
<b>B. Cash flow from investing activities</b>		
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		
<b>Cash flow from investing activities (B)</b>		
<b>C. Cash flow from financing activities</b>		
Third-party funds		
Increase (decrease) in short-term bank borrowings		
Increase in loans		
(Repayment of loans)		
Equity		
Capital increase against payment		
(Repayment of capital)		
Disposal (purchase) of treasury shares		
(Dividends (and interim dividends) paid)		
<b>Cash flow from financing activities (C)</b>		
Increase (decrease) in cash and cash equivalents (A ± B ± C)		
Exchange rate effect on cash and cash equivalents		
<b>Cash and cash equivalents at the beginning of the year</b>		
of which bank and postal deposits cheques cash and cash equivalents on hand		
<b>Cash and cash equivalents at the end of the year</b>		
of which bank and postal deposits cheques cash and valuables on hand		

Diagram 2: Flow of operational activity determined by the direct method

	200X	200X-1
<b>A. Cash flows from operating activities (direct method)</b>		
Collections from customers		
Other receipts		
(Payments to suppliers for purchases)		
(Payments to suppliers for services)		
(Payments to staff)		

(Other payments)		
(Taxes paid on income)		
Interestreceived/( paid)		
Dividendsreceived		
<b>Cash flow from operating activities (A)</b>		
<b>B. Cash flow from investing activities</b>		
Tangiblefixed assets		
(Investments)		
Divestments		
Intangiblefixed assets		
(Investments)		
Divestments		
Financial fixed assets		
(investments)		
Divestments		
Financial assets notheldasfixed assets		
(Investments)		
Divestments		
(Acquisition of business units net of cash and cash equivalents)		
Disposal of business units net of cash and cash equivalents		
<b>Cash flow from investing activities (B)</b>		
<b>C. Cash flow from financing activities</b>		
Third-party funds		
Increase (decrease) in short-term bank borrowings		
Increase in loans		
(Repayment of loans)		
Equity		
Capital increaseagainst payment		
(Repayment of capital)		
Disposal (purchase) of treasury shares		
(Dividends (and interim dividends) paid)		
<b>Cash flow from financing activities (C)</b>		
Increase (decrease) in cash and cash equivalents (A ± B ± C)		
Exchange rate effect on cash and cash equivalents		
<b>Cash and cash equivalentsat the beginning of the year</b>		
of which bank and postaldeposits cheques cash and cash equivalents on hand		
<b>Cash and cash equivalentsat the end of the year</b>		
of which bank and postaldeposits cheques cash and valuables on hand		

*Principle Gaap U.S.A. N. 95 E Asc 230*

U.S. GAAP FAS 95-Statement of Cash Flows (Cash flow statement) supersedes and repeals APB Opinion No. 19, Reporting Changes in Financial Position, and requires the preparation of a document called a statement of cash flows, which is interpreted as a constituent part of financial reporting, like a balance sheet and a profit and loss statement. FAS 95 requires the cash flow statement to classify cash receipts and payments according to whether they arise from operating, investing or financing activities and provides definitions of each category.

SFAS No. 95 encouraged companies to present cash flows from operating activities directly, indicating the main classes of operating cash receipts and payments (direct method). Enterprises that chose not to report operating cash receipts and payments were

required to register the same amount of net cash flows from operating activities indirectly by adjusting net income to reconcile it to net cash flows from operating activities (the indirect or reconciliation method) by eliminating the effects of (a) all deferrals of past operating cash receipts and payments and all accruals of expected future operating cash receipts and payments and (b) all items included in net income that do not affect operating cash receipts and payments. If it used the direct method, a reconciliation between net income and net cash flows from operating activities had to be provided in a separate statement.

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

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

In GASB 9, 34 and 35, there were four categories of aggregation of assets:

Cash flows from Operating Activities

Cash flows from Noncapital Financing Activities

Cash flows from Capital and Related Financing Activities

Cash flows from Investing Activities

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

\*operating activities

\*investment activities

\*financial activities

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

For the sake of completeness, what is defined explicitly in the FASB's SFAS 95 document is reiterated here:

"Cash Flows from Investing Activities

Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the enterprise (other than materials that are part of the enterprise's inventory).

Page 7

*Cash inflows from investing activities are:*

1. Receipts from collections or sales of loans made by the enterprise and of other entities' debt instruments (other than cash equivalents) that were purchased by the enterprise
2. Receipts from sales of equity instruments of other enterprises and from returns of investment in those instruments
3. Receipts from sales of property, plant, and equipment and other productive assets.

*Cash outflows for investing activities are:*

1. Disbursements for loans made by the enterprise and payments to acquire debt instruments of other entities (other than cash equivalents)
2. Payments to acquire equity instruments of other enterprises

3. Payments at the time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive assets.

*Cash Flows from Financing Activities*

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

*Cash inflows from financing activities are:*

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

*Cash outflows for financing activities are:*

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

*Cash Flows from Operating Activities*

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

*Cash inflows from operating activities are:*

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

*Cash outflows for operating activities are:*

1. Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods
2. Cash payments to other suppliers and employees for other goods or services

3. Cash payments to governments for taxes, duties, fines, and other fees or penalties
4. Cash payments to lenders and other creditors for interest
5. All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash contributions to charities, and cash refunds to customers.

Certain cash receipts and payments may have aspects of more than one class of cash flows. For example, a cash payment may pertain to an item that could be considered either inventory or a productive asset. If so, the appropriate classification shall depend on the activity that is likely to be the predominant source of cash flows for the item. For example, the acquisition and sale of equipment to be used by the enterprise or rented to others generally are investing activities. However, equipment sometimes is acquired or produced to be used by the enterprise or rented to others for a short period and then sold. In those circumstances, the acquisition or production and subsequent sale of those assets shall be considered operating activities.”

Nel 2008, the FASB changed the codification of its accounting policies. The codification became effective for interim and annual periods ending after 15 September 2009. FASB Documentation No. 168 explained and explained the reasons why SFASs would be replaced with ASCs. All previous accounting standards documents were replaced as described in FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. The Codification reorganised hundreds of US GAAP pronouncements into approximately 90 accounting topics and presented all topics with a formal structure with theoretical and practical consistency.

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

It should note that the ASC standards are now the only source of GAAP

ASC No. 230 governed the cash flow statement and had a 2016 update. This update was made when the FASB aimed to reduce, when possible, the diversity in practice resulting from different interpretations of certain parts of the standard. In reality, this update did not change the structure of Topic 230, which echoed almost wholly when set out in SFAS 95 above.

The 2016 amendments concerned the specification of specific items:

Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates, contingent consideration payments made after a business combination; proceeds from the settlement on insurance claims; proceeds from the territory of corporative-owned life insurances, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitisation transactions and separately identifiable cash flow and application fo predominance principle. Apart from some specifications on the items identified above, which, as can be seen, are very particular items that are not very common in the cash flow statements of even medium-large companies, ASC 230 reiterated what had already been established by SFAS 95, i.e.:

\*In the cash flow statement, it must disclose aggregate income and expenses according to the origin of the transactions. Topic 230 mentions the aggregations already provided in SFAS 95 and explained in detail on the previous pages, i.e. operating activities, investing activities and financial activities. The items that Topic 230 brings up as needs and sources to be included in the three activities mentioned above are similar to those identifiable in SFAS 95. For the sake of completeness, the items listed in ASC 230 are given below:

#### *Operating 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

\* ASC Principle 230 also reiterates the possibility of applying either the direct or indirect method when preparing cashflow reporting. Also in this principle, the direct method is encouraged over the indirect method.

\* Some subtopics concerning particular issues are indicated in topic 230. In particular, the following sub-topics are provided for in the topic above

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

As we have seen in the previous pages, the IASB, the FASB, the Italian civil code and the IAO (Italian Accounting Organism (Henceforth IAO, in Italian language OIC)) have issued accounting standards that converge towards a structure that, although characterised by changes and peculiarities related to each specific scheme, present a substantial coherence and homogeneity of the overall vision of the cash flow statement. At present, all accounting standards require aggregating items into three activities: operating, investing and financing. The issuance of accounting standards applied in more or less extended groupings of nations is positive in that it ensures that the statement disseminated outside the company is homogeneous for all companies. This is the most outstanding merit of all the accounting standards mentioned and analysed in the preceding pages, which provide for a reference scheme or a series of indications that, although without indicating a mandatory method, lead to the drafting of consistent and similar formal structures.

This structure consistency represented the most outstanding merit of the financial statements governed by the bodies mentioned above and illustrated in the preceding pages. At this point, however, one must ask oneself whether the structure proposed by the bodies as mentioned above is effectively informative for the internal managers who have to manage the company and for third parties external to the company who see the cash flow statement disseminated as an element of

financial reporting, the only information tool capable of providing news about the financial dynamics of the company.

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

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

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

The location of interest is often explained with additional indications concerning the primary signs of the documents that lay down the rules for preparing the cash flow statement. The doctrine has pointed out how it would have been appropriate to ensure that, for example, all interest was included, in all standards, as financing outflows, in the context of financing activities without assuming different options and not indicating this information as quasi-supplementary information to the basic scheme that is explained by the basic rules of the standards

For some scholars, the principles should envisage purchases and sales of short-term non-trading debt securities as financing flows together with receipts of interest on these because these flows result from the fact that there are surplus cash balances, which is

precisely the opposite of borrowing, which is a financing activity

A further limitation of the structures or lists of items suggested by the international, American and Italian national accounting standards concerns the circumstance that, based on these accounting items, it is difficult, or rather in most cases impossible, to determine the monetary cash flow resulting from the performance of characteristic activities. Monetary cash flow from core business activities is understood as the flow of sources net of the requirements associated with all so-called monetary revenues net of the so-called monetary costs associated with typical or core business operations. When reference is made to monetary costs and revenues, it is not intended to refer to the values entered in the profit and loss statement as operating costs and revenues calculated according to economic competence appear in that document. So-called monetary costs and revenues are not academic scientific terms, often used to make the reader understand which values to include in the so-called characteristic cash flow. It is evident that the latter matter, representing a cash flow value, must be composed of monetary sources and needs. Referring to the characteristic activity, it is equally logical how only values connected with the performance of the typical business activity can appear in this aggregate. In light of these considerations, it can be understood how the characteristic monetary cash flow derives from the sum of the needs and sources connected with costs and revenues, which derive from the performance of the typical activity. Therefore, it will not include non-monetary costs such as depreciation, amortisation, provisions for risks and charges and opening and closing inventories in the characteristic monetary cash flow, and all costs and revenues that can be defined as characteristic must be transformed into monetary cash flows, i.e. they must be reduced by the differences in payables and receivables that can be identified in the balance sheet and determined by comparing the value of these payables and receivables at 1/1 and 31/12 of the year or period in question. Realising the items included in the national or international and American accounting standards illustrated above, it is noticeable how often generic items appear, such as income from other revenues and expenses from additional costs. It is evident how on the basis of these definitions, it is impossible to understand what is characteristic and what is not connected to the performance of the typical business activity. In the proposed items of the accounting standards illustrated in the previous paragraph, there is also the expense for employee costs. It is evident that if written this way, the output includes wages, contributions and severance pay. This mixture of values prevents the determination of the characteristic cash flow as this value includes wages and contributions but certainly cannot include the

payment of a severance payment liability paid to an employee who has terminated his employment with the company. Suppose attention was to be focused on the indirect method of calculating cash flows related to operating activities. In that case, it is possible to assume that what, for example, is defined in the Italian principle IAO (Italian Accounting Organism (OAO, in Italian language OIC)) as cash flow after changes in net working capital, could be considered, in essence, as the cash flow from core business. This, however, cannot be taken for granted since the items indicated in the scheme prepared by the Italian Accounting Organism (Henceforth IAO, in Italian language OIC) are absent all payables and receivables that are not directly connected to the purchase of raw materials but are connected to costs included in the performance of characteristic activities. In addition, nothing is said about internal constructions, which can even change the amount of the characteristic monetary cash flow. For these reasons, it is considered that the accounting principles illustrated in the preceding paragraph also present, among the limits that can identify in these statements/listings of items, the limitation of the substantial impossibility of calculating the characteristic monetary cash flow, which instead, in a dynamic financial analysis represents an essential element. In this regard, it should note that the interpretation of the flows presented in a cash flow statement must always be derived from a comparison between recurring requirements and recurring sources and subsequently from non-recurring and non-recurring sources. The only exception to this rule of comparing several values (regular needs with frequent sources and non-recurring needs with non-recurring sources) concerns the characteristic cash flow. This is the only value that can be interpreted without making any other comparison. This happens when this item is negative. If the typical monetary cash flow is negative, the characteristic activity, instead of bringing monetary flows to the company, is hydrazine. And already this consideration causes the list to express a negative judgement on the dynamic financial performance of the company may fall that against a negative cash flow, there are some recurring sources such as rents receivable that cover this need resulting from the negative cash flow. In this case, however, the circumstance that the regular sources cover the recurring needs is not sufficient to express a favourable judgement on the dynamic financial equilibrium because the presence of a negative cash flow characteristic is a negative element of the company's operating performance. The circumstance that there is an activity of a capital nature, and therefore, by definition, not characteristic, that covers the drainage of monetary funds implemented by the same characteristic action does not entail a favourable judgement on the dynamic financial equilibrium. Therefore, determining the cash flow is reasonable and

indispensable to express any decision on the dynamic financial situation of the company. In the international, American, and Italian national standards illustrated in the previous paragraph, this value can be challenging to determine, i.e., absolutely impossible to quantify, representing a limitation. A heavy one of the accounting standards outlined above AND represents a highly relevant limitation of the flow data presented in the statements prepared according to these standards.

A further negative element of the cash flow statement governed by the accounting as mentioned above principles is the circumstance that this is ready and unrelated to the scheme and structure assumed by the balance sheet and the profit and loss. The three documents appear as a single information structure; as in all countries covered by the accounting as mentioned above standards, financial reporting consists of at least the three papers mentioned earlier. The observation is that in some countries, such as Italy, financial reporting is formed by a fourth document consisting of notes on financial reporting. But if we focus our attention on the three accounting documents, i.e. balance sheet, profit and loss and cash flow statement, we can see that the three papers appear to be unrelated in terms of the terms used. There is no coherence between the terms used in the three documents. There seems to be no desire to create an integrated system, neither from the documents issued by the national or international bodies mentioned above nor from the regulations and legislation present in Italy is present in many other nations that refer, directly or indirectly, to the accounting principles illustrated in the preceding pages. The information structure of financial reporting intended for the outside world and used, often, also by the internal managers of the company to manage the company itself, therefore, appears to be a set of documents that are not coherent at the formal level of the expressions used. One term can acquire different meanings in various documents, just as two other words in multiple documents constituting financial reporting can have the same meaning. This creates confusion in those who manage the company and those who, from the outside, must understand the company's situation. To this can be added the fact that, indeed, whoever issued the inconsistent balance sheet, profit and loss and cash flow statement schemes, cannot have assumed consistency, at a formal terminological level and a substantive level, with the documents constituting management control, i.e. all those documents that analyse the company not as a single entity but as a set of units (products, departments, etc.) that are analysed separately to better understand the performance of the company at the level of individual products, individual departments, individual sectors, etc. . all the documents constituting management control and strategic control cannot be consistent, at a formal substantive level, with the phrases and EE structures proposed in financial

reporting by the various accounting standards, since the same documents constituting financial reporting are not consistent with each other from a formal and substantive point of view. This is a severe limitation since formal and substantive consistency between all the company's information documents is an essential element for those who manage the company to be able to make the best decisions and implement a decision-making process that leads to the achievement of profit maximisation objectives, the attainment of financial balance, both static and dynamic, and excellent general company performance.

For this reason, the writer believes that the cash flow statement, as well as the balance sheet and the profit and loss, should be part of an information system integrated with management control that allows for a set of information documents that are coherent from every point of view, both formal and substantial. This is a problem of internal company management and not external communication to companies. As far as external communication is concerned, the documents proposed by the various accounting principles of the balance sheet, profit and loss, and cash flow statement can be accepted, albeit characterised by considerable information limits, as they guarantee coherence between the documents issued by all the companies of the same nation OR by several countries that use the accounting as mentioned earlier principles. If, on the other hand, we focus our attention on the company's internal management, the situation changes completely. The ability to rely on an integrated information system is essential for the company's management to be carried out most effectively and efficiently. Only this can achieve excellent profit, financial and asset objectives.

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

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

Reclassification Scheme Balance Sheet/Budget Implemented As Part of an Integrated Information System

ASSETS	31/12/N	LIAOILITIES AND EQUITY	31/12/N
<b>SHORT-TERM ASSETS</b>		<b>SHORT-TERM LIAOILITIES</b>	
1. Immediate liquidity		1. Short-term financial liaoilities	
2. Deferred liquidity		2. Short-term tax liaoilities	
* Trade receivables			
* Financial liquidity			
* Tax-deferred income			
* Non-characteristic deferred income			
3. Availability (inventories)		3. Short-term non-financial liaoilies	
4. Short-term assets non-characteristic			
5. Advances to trade suppliers			
<b>long-term assets</b>		<b>LONG-TERM LIAOILITIES</b>	
1. Long-term tangible assets		1. Long-term financial liaoilities	
2. Long-term intangible assets		2. Long-term tax liaoilities	
3. Long-term credit assets		3. Long-term non financial liaoilities	
* Trade accounts receivable			
* Financial assets			
* Tax assets			
* Non-typical accounts receivable			
4. Long-term assets non characteristic			
		<b>EQUITY</b>	
<b>Stand-alone items</b>		<b>Stand-alone items</b>	
<b>NET ASSETS</b>		<b>BALANCE TOTAL</b>	

- Immediate liquidity includes everything that is already cash and cash equivalents;
- By definition, deferred cash includes only and exclusively short-term receivables. The subdivision of this aggregate into four micro-aggregates (commercial, financial, tax and non-characteristic) is necessary to determine a series of income and financial ratios: deferred commercial liquidity substantially includes all short-term trade receivables net of the allowance for doubtful accounts; deferred financial liquidity includes all short-term financial receivables; tax-deferred liquidity includes all short-term tax and social

security/assistance receivables; non-characteristic deferred liquidity consists of all future revenues (realisable within 12 months), not already included in previous aggregates, which have the characteristic of not being considered part of the company's typical operations. This is the case, for example, of receivables related to the sale of long-term assets. It is evident that this receivable can be included in the typical business activity (otherwise, the receivable would be from customers). For this reason, it can be included in this sub-aggregate;

- Short-term assets non-characteristic comprise all accounting items held for capital purposes such as securities/shares had with a view to their sale within the next financial year;
- Availability equivalents are the total inventories of the enterprise;
- Tangible long-term assets comprise everything that will provide the company, through the start-up of the production process, with income in the long term and that, at the same time, is endowed with physicality;
- Intangible long-term assets, on the other hand, consist of everything that will provide the company with long-term income through the start of the production process, but which, at the same time, is not physical;
- Long-term credit assets include only and exclusively long-term loans. The subdivision of this aggregate into four micro-aggregates (commercial, financial, tax and non-characteristic by definition) is necessary to determine a series of income and financial ratios: the long-term commercial credit asset includes all long-term trade receivables net of the allowance for doubtful accounts; the long-term financial credit asset includes all long-term financial receivables; the long-term tax credit asset includes all long-term tax and social security/welfare receivables; the long-term non-characteristic credit asset by definition consists of all future revenues (realisable beyond 12 months), not already included in previous aggregates, which have the characteristic of not being able to be considered as belonging to the company's typical operations. This is the case, for example, of receivables related to the sale of long-term assets. It is evident that, by theoretical definition, this receivable cannot be included in the typical business activity (otherwise, the receivable would be from customers). For this reason, it can be included in this sub-aggregate;
- Long-term assets comprise long-term items that identify capital investments. Examples of such things may be civil buildings and securities and participations held not for speculative purposes but as a long-term investment in the company;
- Stand-alone items It should be noted that it is only in the context of the integrated information system that an element is highlighted that is, in fact, fundamental for the implementation of a correct balance sheet analysis and whose failure to be taken into account may lead to the determination of aggregates without financial significance. In addition to the aggregates indicated above, it is desirable to include a further category of items in the capital employed and in the total sources, defined as "stand-alone items", which identifies a set of items which, although they must be recognised in the reclassification for accounting balancing reasons, in

reality, will not be transformed into future income or expenditure. An example of such an item is the amount of a provision for future expenses or tax provision that, following specific elements (e.g. court decisions, tax commission decisions, etc.). However, it cannot be eliminated from the accounts due to the principles of prudence and accrual; it can be reasonably assumed that, in the following financial year, it will be transformed, for accounting purposes, into an extraordinary item and not into a future expense or income (separate item in the assets). An example of an item that should be recognised in different entities in debt is the amount of the tax advance that exceeds the tax liability that can be offset and will be offset in the future. This amount does not identify a lower expense recognised in the financial statements (the debt has not yet been created), nor is it considered future income. For this reason, it should be recognised as a separate item in the reclassified balance sheet, an aggregate that, as noted above, is part of the concept of the net asset or net capital employed (i.e. the reclassified total assets).

- Short-term financial liabilities include all financial liabilities that will result in a cash outflow within one year; short-term tax liabilities include all tax and social security/social security liabilities that will result in a cash outflow within one year; short-term non-financial liabilities include all non-tax and non-financial liabilities that will result in a cash outflow within one year;
- long-term financial liabilities include all debts of a financial nature that will result in monetary outlays beyond one year; long-term tax liabilities include all debts of a tax and social security/social security nature that will result in monetary outlays beyond one year; long-term non-financial liabilities include all debts of a non-tax and non-financial nature that will result in monetary outlays beyond one year;
- Shareholders' equity is interpreted as the company's wealth that will essentially result in the company's final exit. It is only when the company is put into liquidation that equity will become a future output;
- Stand-alone items: see the considerations made about stand-alone items above. Naturally, items under liabilities are found in assets: an example of such an item is the amount of advances from customers received in connection with a contract that is about to be terminated and for which no reimbursement is expected. This item will become a contingent asset the following year, and, therefore, there is and will be no monetary movement. For this reason, the item must be recognised in a separate aggregate, separate from the items that will undoubtedly become cash outflows or receipts in the future.

Reclassification Scheme Profit and Loss/Budget Implemented As Part of an Integrated Information System

<b><i>Characteristic</i></b>
Characteristic Revenue  Cost of Sale
<b>Gross Profit</b>
(Administrative Costs)  (Commercial Costs)  (Research and Dev. Costs)  (Overhead cost)
<b>Gross operating Profit (GOP)</b>
<b><i>Non Characteristic</i></b>
Revnue from asset non charactetistic Management  (costs from asset non charactetistic Management)  Revenue form Financial management
<b>Operating Profit</b>
(financial management costs)  revenues from non-characteristic activities by definition  (rCost from non-characteristics activities by definition)
<b>Ante tax Profit</b>
(Tax)
<b>Net Profit</b>

a) *Characteristic*

1. Characteristic Revenue: Sales Revenue
2. Cost of sale: The cost of sale, or production of the product sold, identifies all production costs incurred by the enterprise in carrying out its core business. To make a complete analysis, it is necessary to locate a sub-aggregate, the cost of the finished product, which identifies the cost incurred to finish the object of production. This cost does not include inventories of finished goods and merchandise, just

as it should not include any purchases of goods in the above aggregate.

In summary terms, the cost of sale can be summarised as follows:

- Consumption of raw materials
- Consumption of ancillary materials
- Consumption of semi-finished goods
- Production depreciation
- Productive wages
- Production severance pay
- Other industrial costs

.....  
 Inventories Initial work in progress  
 (Final inventories of work in progress)  
 Inventories. Initial semi-finished products of production  
 (Final inventories of semi-finished products of production)

*Cost of Finished Products*

Inventories Initial of finished products  
 (Closing inventories. of finished products)  
 Inventories Initial goods not processed but sold in the state in which they were purchased  
 goods not processed but sold in the state in which they were purchased  
 (Closing inventories of goods not processed but sold in the state in which they were purchased)

-----  
 COST OF GOODS SOLD (COST OF SALE)

3. Administrative costs: Identifies all administrative costs and negative income components incurred for corporate representation purposes
4. Commercial costs: It identifies the sum of commercial, marketing and sales costs
5. Research and Dev. Costs: Identifies the sum of research and development costs incurred during the year
6. Overhead Costs: These costs identify notional values present only in companies belonging to a group. The holding company performs activities from which the subsidiaries or affiliated companies benefit free. It defines group strategy, identifies tax strategies, determines the financial management of intra-group flows, manages human resources at the senior/management level and, often, engages in institutional marketing activities. Subsidiaries or associates enjoy the benefits of these activities free of charge. The holding company does not 'pass on the costs to the companies by issuing invIAO (Italian Accounting Organism (Henceforth IAO, in italian language OIC))es but carries out the transaction off the books for internal company purposes only.

In the presence of overhead costs in the reclassified profit and loss account, the net income for the year in the final balance sheet differs from the income in the reclassified profit and loss account by precisely the amount of the costs charged off-balance sheet. These amounts are set off the books, and thus, without impact on the subsidiary's financial statements, by parent companies. In the absence of accounting movements, these costs do not appear in the subsidiary's financial statements and therefore only represent amounts included in the reclassification to assess the performance of the subsidiary's management. Including this item allows for a better assessment of the subsidiary's characteristic performance. This company is also "loaded" with the negative income components of which, although it does

not make any disbursements as the parent company bears them, it benefits from these amounts.

b) *Non Characteristics*

1. Revenue and cost from asset non characteristic Management

Non-capital assets are all income and expenses arising from capital investments, constituting invested capital, which is not used in the company's core business. As noted in the preceding pages, capital assets comprise two sub-aggregates, referred to as short-term assets and long-term assets, within which those balance sheet items must be included, respectively maturing within the financial year or beyond the next financial year not utilised in the company's core business.

Examples include civil buildings, securities and equity investments (please note that the above reclassifications and remarks on profit and loss reclassified to cost of sales and revenues can be applied to all non-banking and insurance companies).

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

2. Income from financial management and financial management costs: All income and expenses arising from receivables or payables of a financial nature are to be included under financial management. These amounts consist primarily of interest income and expenses on current bank accounts or other financial debts and receivables. Following both national and international accounting standards, exchange rate gains and losses are also shown in this aggregate. This is because exchange rate activity is always considered, by the abovementioned standards, to be outside the purely typical business activity.
3. Revenues and costs from non-characteristic activities by definition: concerning non-characteristic activities by definition, it must be emphasised that the aggregate under consideration is often improperly identified with the expression "extraordinary revenues and costs". The aggregate of extraordinary expenses/income, however, does not coincide with the aggregate of non-recurring items by definition, as it is possible to identify numerous accounting values that, although ordinary, identify income items of non-recurring nature (e.g. capital gains/losses deriving from the sale of fixed assets connected to the regular replacement of assets within the production process).

The aggregate 'non-typical income and expenses by definition' must include items that, by their

intrinsic nature, they relate to the performance of typical activities. We mean, for example, all capital gains/losses and contingent assets and liabilities of both ordinary and extraordinary nature.

4. Taxes: tax management identifies income taxes for the year.

This item makes it possible to determine how much income tax has affected pre-tax income, i.e. calculated gross of this cost.

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

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

For this reason, it must identify the reporting scheme with the primary need of the analyst in mind, the non-fulfilment of which significantly invalidates the clarity of the results obtained through the analysis of company financial statements. The condition to which we refer relates to the circumstance that, for reasons of intelligibility of the results, it should carry out the investigation using terminology endowed with substantial constancy of meaning. Using the same terms with different definitions in the various areas of analysis causes a terminological inconsistency that

prevents the investigation from being considered as a whole. The in-depth scheme of financial reporting represents a single entity within which the reclassification of the balance sheet, the restatement of profit and loss and the preparation of the cash flow statement represent parts of a coordinated system. Introducing a system, i.e. a set of interrelated elements, requires coordinating the various analysis tools. Using terms that are the same in form but different in substance constitutes an element of the system's imperfection. To analyse, by indexes and flows, a fluid set of congruent and coordinated features, it is necessary to prepare a set of schemes characterised by formal and substantial coherence. This coherence must be expressed in every part of the analysis to guarantee an overall uniformity of the results obtained and a possibility of reading that is not affected by potential interpretative errors.

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

In the reclassification schemes of balance sheet and profit and loss, one can note the constancy of specific terms. The terms 'financial', 'equity', 'tax' and 'uncharacteristic by definition' deserve particular attention. These terms must have the same meaning in all documents constituting the integrated information system. They must therefore have the same meaning in the balance sheet, profit and loss, cash flow statement, and analytical documents that form the information structure of the so-called management control. In light of the considerations made in the preceding pages, the cash flow statement used in an integrated information system must be structured as follows:

Cash flow statement template that can be used as part of an integrated business analysis

<b>ACCOUNTING OPERATIONS WITH AN IMPACT ON CASH AND ACTIVE BANK</b>	<b>MONETARY REQUIREMENTS</b>	<b>MONETARY SOURCES</b>
<b>MONETARY CASH FLOW</b>		

(OR MONETARY CASH FLOW FROM CORE BUSINESS)		
LONG-TERM MANAGEMENT OF TANGIBLE AND INTANGIBLE ASSETS		
FINANCIAL MANAGEMENT		
ASSETS NON CHARACTERITICS MANAGEMENT		
NON CHARACTERISTICS BY DEFINITION MANAGEMENT		
TAX MANAGEMENT		
TERMINATION BENEFITS FOR STAFF MANAGEMENT		
MANAGEMENT OF NON-TAX PROVISIONS FOR RISKS AND CHARGES		
EQUITY AND DIVIDENS MANAGEMENT		
Δ CASH AND BANK		
TOTAL		

Suppose one follows the rules illustrated in the preceding pages regarding preparing documents in an integrated information system. In that case, many of the limitations previously identified in the statements provided by the SFS95, ASC 230, IAS 7 and IAO (In Italian language OIC) No. 10 are abundantly overcome and eliminated.

As we have seen above, the documents included in an integrated information system must be equally consistent with all the documents used in the so-called management control in which individual products, individual company sectors, individual departments, etc., are analysed. This is not the place to go into these documents in depth. But this is the right place to point out that this consistency must necessarily be present in all the documentation of the information system, including the balance sheet profit and loss cash flow statement, economic budget balance sheet financial budget and all the analytical management control

documents relating to individual products, individual departments, individual sectors, etc. because, without this consistency, the system can never be said to be integrated. And the use of an integrated information system is a fundamental element so that it can make corporate decision-making based on understandable, correct, consistent and complete information. The formal consistency of the terms used in drafting the documents represents one of the fundamental elements of the integrated information system, the absence of which prevents any information system from being considered an actual management valuable tool for management to achieve, in an effective deficient manner, the maximisation of profit, financial and asset objectives.

## V. CONCLUSIONS

In conclusion, these considerations regarding the cash flow statement and its importance in the company's internal decision-making process and, at the

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

## REFERENCES RÉFÉRENCES REFERENCIAS

1. Adelberg A.H., (1979) A Methodology for Measuring the Understandability of Financial Report Messages, *Journal of Accounting Research*, Vol. 17, No. 2 , pages 565-592.
2. Adelberg, A.H., (1983) "The accounting syntactic complexity formula: a new instrument for predicting

- the readability of selected accounting communications", *Accounting and Business Research*, Summer 1983, pages 162-175.
3. Adelberg, A.H., Razek, J.R, (1984) The Cloze Procedure: A Methodology for Determining the Understandability of Accounting Textbooks, *The accounting Review*, Vol. 59, no. 1, pages 109-122.
4. Albrecht W. S., d Sack R. J. (2001) *Accounting Education: Charting the Course Through a Perilous Future*, Accounting Education Series 16, American Accounting Association.
5. Alexander D., Britton A, Jorissen A., (2007) *International financial reporting and analysis*, Thomson.
6. Alexander D., (1993) A European true and fair view? *European accounting review*, vol 2, issue n. 1.
7. Alexander, D. and H. R. Schwencke (1997). *Accounting changes in Norway: a description and analysis of the transition from a continental towards an anglo-saxon perspective on accounting*. 20th Annual Congress of the European Accounting Association. Graz, Austria.
8. Alexander, D. and H. R. Schwencke, (2003). *Accounting change in Norway*, *European Accounting Review* vol. 12, issue 3, p. 549-566.
9. Alexander, D., Jermakowicz E, (2006). A true and fair view of the principles/rules debate, *Abacus*, Vol. 42, n. 2.
10. Alexander, D., Nobes C. (2013). *Financial accounting: an international introduction*, Pearson.
11. Ankarath N., KJ Mehta K.J., Ghosh T.P., Alkafaji Y. A., (2010), *Understanding IFRS fundamentals: international financial reporting standards*, John Wiley and Son.
12. Avi M.S, (2017), in *Management accounting volume II. Cost analysis*, EIF-e.book.
13. Avi, M.S., (2018), *Understandability in Italian Financial Reporting and jail: a link lived dangerously*, *European Journal of Economics, Finance, & Administrative Science*, vol. 99, pages XXX.
14. Ballwieser W., G. Bamberg, M.J. Beckmann, H. Bester, M. Blicke, R. Ewert, A. Wagenhofer and M. Gaynor (2012). *Agency theory, information, and incentives*. Springer Science & Business Media.
15. Baines, A., & Langfield-Smith, K. (2003). *Antecedents to Management Accounting Change: a Structural Equation Approach*, *Accounting, Organizations and Society*, vol.28, Issue 7, pages 675-698.
17. Barth M.E., (2008) *Financial Reporting Transparency*, *The Journal of Accounting, Auditing, and Finance*, Vol 23, Issue 2, , pages. 173-190.
18. Barth, M. E (2014)., *Measurement in Financial Reporting: The Need for Concepts*, *Accounting Horizons*, Vol. 28, No. 2, pages. 331-352.

19. Barret, E. and Fraser, L.B., (1977). Conflicting roles in budgeting for operations. *Harvard Business Review*, July August, pages 137-146.
20. Baskerville R.F., Rhys H., (2014), A Research Note on Understandability, Readability and Translatability of IFRS, *Accademic Paper*.
21. Beest F., Braam G., Boelens S., (2009) Quality of Financial Reporting: measuring qualitative characteristics, *NiCE Working Paper 09-108*, April.
22. Benston, G. J., M. Bromwich, R.E. Litan, and A. Wagenhofer, (2006). *Worldwide financial reporting: The development and future of accounting standards*. Oxford University Press.
23. Boer, G. (2000) 'Management Accounting Education: Yesterday, Today and Tomorrow', *Issues in Accounting Education*, Vol 15, Issue 2, pages 313 – 321.
24. Broome, O.W., (2004), Statement of cash flows: Time for change!, *Financial Analysts Journal*, 2004. Vol 60, Issue 2, pages 16-22.
25. Bunce, P., Fraser, R. and Woodcok, L., (1995), *Advanced budgeting: a journey to advanced management system*. *Management Accounting Research*, 6, 253-265.
26. Burchell S., C. Clubb, A. Hopwood, J. Hughes, J. Nahapiet, (1980). The roles of accounting, organizations and society, *Accounting, Organizations and Society*, Vol. 5, issue 1, Pages 5-27.
27. Burchell S., C. Clubb A.G. Hopwood (1985). "Accounting in its social context: Towards a history of value added in the United Kingdom", *Accounting, Organizations and Society*, Vol. 10, issue 4, pages 381-413.
28. Cadez, S., & Guilding, C. (2008a). An Exploratory Investigation of an Integrated Contingency Model of Strategic Management Accounting. *Accounting, Organizations and Society*, Vol. 33, Issue 7, pages 836-863.
29. Chambers, D., et al., (2007), An evaluation of SFAS No. 130 comprehensive income disclosures. *Review of accounting studies*, Vol 12, Issue 4, pages .557-593.
30. Chenhall, R. H. (2008). Accounting for the Horizontal Organization: A Review Essay. *Accounting, Organizations and Society*, Vom 33, Issue 4, pages 517-550.
31. Chloe Y., Kan C., Budget depreciation: when budgeting early increases spending, (2021), *Journ of consumer research*, vol. 47, issue 6, pages 937-958.
32. Cristea, S. M. and Saccon, C. (2008) Italy between applying national accounting standards and IAS/ IFRS, in *Romanian Accounting Profession's Congress (Bucharest: CECCAR)*.
33. Covaleski, M., Dirsmith, M. and Samuel, S. (1996), *Managerial Accounting Research: the Contributions of Organizational and Sociological Theories*, *Journal of Management Accounting Research*, Vol. 8, Issue 1, pages 1-35.
34. Covaleski, M.A., Evans, J.H. III, Luft, J.L. and Schields, M.D., (2003), Budgeting research: Three theoretical perspectives and criteria for selecti veintegration., *Journal of Management Accounting Research*, Vol 15, Issue 1, pages 3-49.
35. Deatherage R.H., (2021) *Security on a Budget*, in *Security Operations*, Taylor and Francis Group.
36. Delvalle, P., Ebbers, G. and Saccon, C. (2005) *International financial reporting convergence: evidence from three continental European countries*, *Accounting in Europe*, 2(1), pp. 137–164.14.
37. De Franco, G., S. P. Kothari and R.S. Verdi (2011). "The Benefits of Financial Statement Comparability", *Journal of Accounting Research*, Vol. 49, pages 895–931.
38. Di Pietra, R, McLeay S., Riccaboni A.,(2001) "Regulating Accounting Within the Political and Legal System", *Contemporary Issues in Accounting Regulation*, Chapter 3, Pages 59-78, Springer.
39. Doxey C.H., (2021), *The controller's Toolkit*, Wiley.
40. Ekholm, B. and Wallin, J., (2011). The Impact of Uncertainty and Strategy on the Perceived Usefulness of Fixed and Flexible Budgets. *Journal of Business Finance and Accounting*, vol38, Issue 1, pages , 145-164.
41. Epstein, M.J., Manzoni, J-F and Dávila, A., (2005). *Performance Measurement and Management Control: Innovative Concepts and Practices*, vol. 20. Emerald Books,
42. Epstein M.J., Manzoni J.F, (2010) *Performance Measurement and Management Control: Superior Organizational Performance*, in *Studies in Managerial and Financial Accounting*, vol. 14, Emerald Books.
43. Ewer, Sid R., (2007), *Transparency and Understandability, But for Whom? The CPA Journal*; New York Vol. 77, Fasc. 2, pages16-18, 20-22.
44. Frow, N., Margisson, D. and Odgen, S., 2010. Continuous budgeting: Reconciling flexibility with budgetary control. *Accounting, Organizations and Society*, vol, 35, pages 444-461.
45. Ghandour D., (2021) Analytical review of the current and future directions of management accounti and control system, in *European Journal of Accounting, Auditing and Fncance Research*, vol 9, Issue 3, page 42-53.
46. Gharairi A.M. (2020) *Management control and performance*, *International Journal of Management*, vol 11, Issue 10, page 2013-2023.
47. Godfrey, J.M., , Chalmers K., (2007) *Globalisation of Accounting Standards*, Edgar Elgar.
48. Green J., Lous H., Sani J, (2022), *Intangible investments, scaing, and the trend in accrual cash*

- flow association, in *Journal of accounting Research*, Vol. 60, Issue 4, page 1551-1582.
49. Haller, A. (2002) Financial accounting developments in the European Union: past events and future prospects, *European Accounting Review* vol 11 issue 1, pages 153-190.
  50. Haller A, P. Walton and B. Raffournier B. (2003). *International accounting*. Cengage Learning EMEA.
  51. Haller, A., B. Eierle (2004). The adaptation of German accounting rules to IFRS: a legislative balancing act, *Accounting in Europe* Vol. 1, Issue 1, pages 27-50.
  52. Hope, J. and Fraser, R., (1997). Beyond budgeting... Breaking through the barrier to the third wave. *Management Accounting*, Vol. 75, Issue 11, pages 20-23.
  53. Hope, J. and Fraser, R., 2000. Beyond budgeting. *Strategic Finance*, Vol.82, Issue 4, pages 30-35.
  54. Hope, J. and Fraser, R., 2003. Who needs budgets? *Harvard Business Review*, Vol.81, Issue 2, pages 108-115.
  55. Hopwood, A. G., Chapman C. S., Shields M. D. (2007b). *Handbook of management accounting research*. Volume 2, Elsevier.
  56. Hopwood, A.G., (2008). "Changing Pressures on the Research Process: On Trying to Research in an Age when Curiosity is not Enough", *European Accounting Review*, Vol. 17, Issue 1, pages 87-96.
  57. Hopwood, A.G., (2009). "Accounting and the environment", *Accounting, Organizations and Society*, Vol. 34, Issues 3-4, pages 433-439.
  58. Hopwood, A.G., (2009). "The economic crisis and accounting: Implications for the research community", *Accounting, Organizations and Society*, Vol. 34, Issues 6-7, pages 797-802.
  59. Hopper A., Burns J, Yazdifar M., (2004). Management accounting education and training: putting management in and taking accounting out, *Qualitative Research in Accounting and Management*, 2004, vol 1, Issue 1, pages 1-29.
  60. Horngren, C.T., Sundem, G.L. and Stratton, W.O., (2013). *Introduction to Management Accounting*, Pearson.
  61. Hutaaruk M.R., (2022), the effect of difference in accounting and fiscal profit, operating cash flow and liabilities levels on earning persistency, in *World Journal of advanced research and reviews*, Vol 15, Issu 3, page 182-191.
  62. Jonas, G.J., Blanchet J. (2000), Assessing Quality of Financial Reporting, *Accounting Horizons*, Volume 14, Issue 3 , pages 353-363.
  63. Jaroszewicz E.M., (2022) Use of a deterministic cash flow model to support manager decisions, *Procedia computer science*, Vol 207, Issue 4, page 1417-1426.
  64. Jensen, M.C., 2001. Corporate budgeting is broken – let's fix it. *Harvard Business Review*, vol. 89, Issue 10, pages. 94-101.
  65. Johannessen J.A., (2021), *Continuous change and communication in knowledge management*. Emerald Publishing.
  66. Jones, M., Smith M., (2014) Traditional and alternative methods of measuring the understandability of accounting narratives, *Accounting, Auditing & Accountability Journal*, Volume: 27 Issue: 1, pages 183-208.
  67. Kaplan R.S., Anderson S. (2007) Time-driven activity-based costing. A simpler and more powerful path to higher profits, *Harvard business school press*.
  68. Kent p., Kent R., McCormack R., Tarr J.A., (2022), Disclosure of liquidity and cash flow statement by Australian superannuation funds before Covid 19, *Accounting & Finance*, pages 1-23.
  69. Lewandoski R., Goncharuk A.G., Deforowsky J.J., (2020), Ideology, trust, and spirituality: A framework for management control research in industry 4.0 era, *The futur of Management Industriy 4.0 and Digitalization*, issue 1, pages 72-91.
  70. Libby, T. and Lindsay, M., (2010), Beyond budgeting or budgeting reconsidered? A survey of North-American budgeting practice. *Management Accounting Research*, vol. 21, Issue 1, pages 56-75.
  71. Katz B., (2019) *The Acquisition Budget*, Routledge.
  72. Kuhnle A., Kaiser J.P., Theiss F., Stricker NN., Lanza G., (2021) Designing and adaptive production control system using reinforcement learning, *Journal of Intelligent Manufacturing* volume 32, issue 3, pages 855-876.
  73. Lubis M.G., Dai M., Sitorus S., Muda I., (2022), The usefulness and format of the statement of cash flows based on IFRS, *International Journal of Mechanical Engineering*, Vol 7, Issue 1, pages 6796.
  74. Miller G.J., Hildreth W.B., Rabin J., (2019) *Performance-Based Budgeting*, Routledge.
  75. Mintzberg H, Qatrs J.A., (1985) Of strategies, deliberate and emergent, *Strategic Management Studies Jouurnal*, vol. 6, issue 1, pages 157-172.
  76. Moisello A.M., (2021) ABC: evolution, problems of implementation and organizational variaole, *American Journal of instrial and business Management*, Vol 2, issue 2, page. 55-63.
  77. Morton, J.R., (1974) Qualitative Objectives of Financial Accounting: A Comment on Relevance and Understandability, *Journal of Accounting Research*, Vol. 12, No. 2, pages 288-298.
  78. Mouritsen, J., K. Kreiner (2016). Accounting, decisions and promises", *Accounting, Organizations and Society*, Vol 49, pages 21-31.
  79. Morrel J, (2018) *How to Forecast: a Guide for Business*, Routledge.

80. Nillson, S., (1997) Understandability of Narratives in Annual Reports, *Journal of Technical Writing and Communication*, Vol 27, Issue 4, pages 361-384.
81. Nobes , C.W., Aisbitt S. (2001). "The True and Fair Requirement in Recent National Implementations", Vol. 31, No. 2, pages 83-90.
82. Nobes, C. W., M. Gee and A. Haller (2010). 'The Influence of Tax on IFRS Consolidated Statements', *Australian Accounting Review*, Vol. 7, No. 1, pages 97-122.
83. Nobes, C.W., (2013). "The continued survival of international differences under IFRS", *Accounting and Business Research*, Vol.43, No.2, pages 83-111.
84. Nobes C. (2016). Towards an Assessment of Country Effects on IFRS Recognition Decisions and Measurement Estimations, Paper, Venezia.
85. Nobes C., Parker R., (2016), *Comparative International Accounting*, Pearson.
86. Nobes C.W., , Stadler C. (2015), *The Qualitative Characteristics of Financial Information, and Managers' Accounting Decisions: Evidence from IFRS Policy Changes* , *Accounting and Business Research*, Vol 45, Issue 5, pages 572-601.
87. Obaidat, A. N., (2007) *Accounting Information Qualitative Characteristics Gap: Evidence from Jordan*, *International Management Review* Vol. 3 No. 2, pages 26-32.
88. Oderlheide, D. (2001). *Transnational Accounting*, Macmillan, London.
89. Onushchenko S.V., Berezhna A.Y., Filonych, (2021), *Budget Mechanism: Methodological Approach to and the Practice of Budget Decentralization*, *The Problems of Economy*, Vol 47, Issue 1, pages 107-122.
90. Patel C, Day R., (1996) The influence of cognitive style on the undersand ability of a professional accounting pronunciemnt of by accounting students, *The British Accounting Review*, Volume 28, Issue 2, Pages 139-154.
91. Pornupatham S., Tan H.T., Vichitsarawong T., Yoo G.S, (2022), The effect of cash flow presentation methon on investor' forescas of future cash flows, *Management Science*, <https://doi.org/10.1287/mnsc.2022.4406>.
92. Qydratovich E.A., (2022), Cash flow of the entreprise: the essence and methods of their evaluation, *International Journal on integrated education*, Vol. 5, Issue 3, pages 95-100.
93. Rankin, M., Stanton, P., McGowan, S., Ferlauto, K., & Tilling, M. (2012). *Contemporary Issues in Accounting*. Milton, Qld.: Wiley & Sons.
94. Samuelson, L.A., 1986. Discrepancies between the roles of budgeting. *Accounting, Organizations and Society*, Vol.11, Issue 1, pages 35-45.
95. Schoen, W. (2004) *International accounting standards – a 'starting point' for a common European taxbase?* *European Taxation*, vol 44, issue 10, Pages. 426–440.
96. Schorck E.M., Lefebvre H.L., (2021), *The good and the bad news about quality*, CRC Press.
97. Simons, R.S., 1995. *Levers of Control*, Harvard Business School Press.
98. Slighy N., Taffurelli V., Iber M.m Doyle A.S, (2021)*Budgeting Lesson and Stories*, in *Growth, Creativity and Collaboration: Great Vision on a Great Lake*, Routledge.
99. Smith, M., Taffler, R., (1992) *Readability and Understandability: Different Measures of the Textual Complexity of Accounting Narrative*, *Accounting, Auditing & Accountability Journal*, Vol. 5, Issue 4.
100. Smith M., (2021), *Who controls the past... controls the future'*, *Public History Review*, vol. 28, page 90-105.
101. Steven, M.FloryT., Phillips, J, Maurice Jr., Tassin F., 1992 *Measuring readability: A comparison of accounting textbooks*, *Journal of Accounting Education*, Volume 10, Issue 1, Spring , pages 151-161.
102. Schwaiger, W.S.A., (2015) *The REA Accounting Model: Enhancing Understandability and Applicability*, *International Conference on Conceptual Modeling*, *Conceptual Modeling* pages 566-573, Part of the *Lecture Notes in Computer Science* book series (LNCS, volume 9381).
103. Van der Stede, W.A., 2000. The relationship between two consequences of budgetary controls, budgetary slack creation and managerial short term orientation. *Accounting, Organizations and Society*, vol. 25 , Issue 6, pages 609-622.
104. Wagenhofer, A. (2003). "Accrual-based compensation, depreciation and investment decisions." *European Accounting Review*, Vol. 12, Issue 2, pages 287-309.
105. Wagenhofer, A. (2006). "Management accounting research in German-speaking countries", *Journal of Management Accounting Research* vol. 18, Issue1, pages 1-19.
106. Wagenhoferb, A., Göxa R.F. (2009). "Optimal impairment rules", *Journal of Accounting and Economics*, Vol. 48, Issue 1, pages 2–16.
107. Wagner J., Petera P., Popesko B., Novák P., Šafr K., (2021)*Usefulness of the budget: the, mediating effect of participative budgeting and budget-based evaluation and rewarding*, *Baltic Journal of Management*, June 2021.
108. Webster T., Yee G., *Web based energy information and control systems*, (2021), River Publisher.
109. Wildavsky A, (2017) *Budgeting and Governing*, Routledge.
110. Zeff S.A., (2013), *The objectives of financial reporting: a historical survey and analysis*, *Journal of Accounting and Business Research* , Volume 43, - Issue 4, pages 262-327.

111. Yuthas K., Rogers R., Dillard J.F., (2002) Communicative Action and Corporate Annual Reports, Journal of Business Ethics, Volume 41, Issue 1-2, pages 141-157.

