TALLINN UNIVERSITY OF TECHNOLOGY
School of Economics and Business Administration
Department of Accounting
Chair of Management Accounting

Olga Davis

STATEMENT OF CASH FLOWS: ISSUES IN CASH FLOW REPORTING IN ESTONIA

Master Thesis

Supervisor: Professor Jaan Alver

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I declare I have written the master's thesis independently. All works and major viewpoints of the other authors, data from other sources of literature and elsewhere used for writing this paper have been referenced.

Olga Davis ……..

(Signature, date)

Student's code: 141820TVTM

Student's e-mail address: olga_sok@mail.ru

Supervisor Professor Jaan Alver: The thesis conforms to the requirements set for the master's these

……..

(Signature, date)

Chairman of defense committee

Permitted to defense

……

(Title, name, signature, date)

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ABSTRACT

Business analysts report that poor cash management is the main cause of business failure. Poor cash management is one of the most common stumbling blocks for any business. This challenge applies to every business throughout the world. This research shows that many development initiatives have to be undertaken in Estonia in the future. The importance of the cash flow statement lies in the fact that it clarifies changes in liquidity and provides insight into the company's operating, investing and financing activities. In addition, the cash flow statement reveals the company's ability to generate cash to meet its short-term obligations, thereby clarifying the company's liquidity and solvency position. An understanding of effective cash flow statement and it management is a vital tool to ensure the long-term prosperity of any company. It is also a key factor in the planning and successful execution of all aspects of operations. In this master's thesis the author identifies the difficulties that can arise in connection with the preparation and analysis of the cash flow statement in Estonia. In addition, the author shows that there is a need for increased guidance and more readily accessible training materials for Estonian businesses. This research draws upon data taken from a survey of accountants, managers and students within Estonia. The data reveals that, due to the lack of robust accounting programs and accessible literature on international accounting and reporting, Estonian accountants are insufficiently competitive on the international market. Furthermore, Estonian financial reporting is weak in comparison with other EU countries. This, in turn, reflects that most business directors and managers did not change their organization's financial reporting paradigm from one where financial reporting is delegated to chief accountants to another where directors are obligated to ensure the true and fair preparation of financial statements and the company's financial management.

Key words: *cash flow statement, history of cash flow, cash flow analysis, direct method, indirect method, cash flows methodology, W.T. Grant Company, cash flows ratios.*

INTRODUCTION

The cash flow statement is considered by many financial professions to be the single most important financial instrument. The cash flow statement is the final document prepared as part of the financial report and provides information that integrates data from the income statement, owner equity statement and balance sheet. Therefore, this section of the report adds validity and accountability to the financial statements. It shows how well the company is governed by the managers and how well they administer the resources entrusted to them. It also helps to assess the ability of the company to generate cash, thus helping assess the going concern principle. An analysis of the relationship between operating cash flows and quality of earnings may lead to useful indicators of a company's long-term financial health and sustainability.

Accounting standards provide a principles-based framework for presenting the sources and uses of cash. The application of this framework is also governed by the laws in the each particular country. Therefore, the application of international accounting standards can in practice be quite complex. As a result, cash flow reporting can vary from company to company and from country to country, resulting in substantial diversity that reduces the comparability of financial reports. Thus, the disclosure of cash flow information is vital to ensuring the utility of financial data.

Combined with other financial information, the cash flow statement can be a useful tool for analyzing key relationships in the financial statements, evaluating past performance, as well as predicting future performance. Furthermore, because the accrual method is used in income statement preparation, the cash flow statement necessarily reflects cash generation and expenditure. It can contribute to an assessment of a company's ability to generate cash from core business activities, repay debt, make capital expenditures and pay dividends.

Therefore, the goal of this master thesis is to identify the difficulties that may be encountered in connection with the preparation and analysis of the cash flow statement in Estonia. In addition, the author intended to determine whether there is a need for additional guidance and training materials in the local language pertaining to this report for accountants and managers.

The aim of the thesis is to examine what difficulties accountants are experiencing in cash flow reporting and analysis and whether there is sufficient methodological literature available within Estonia and, in particular, in the Estonian language.

The first component of this thesis consists of the qualitative resources collected from a wide selection of articles and books. Articles are considered the best source material overall, as they provide a very wide perspective on a range of topics, issues and discussions, in addition to being the most up-to-date. Articles which were selected for this research were published in accounting and management magazines from around the world, but mostly from the USA. The articles are examined in the first chapter of this paper.

In order to understand contemporary issues in cash flow reporting, the reader must become familiar with the historical background of the cash flow statement. Thus, the first subparagraph of Chapter One provides an overview of the main historical events which have impacted upon the development of the cash flow statement, from the "funds statement" to the "statement of cash flows".

As an example of substandard practice in reporting and, consequently, faulty investment decisions, the author looks in detail at the W. T. Grant Company case. The case, which catalogues the unanticipated bankruptcy of the second biggest retailer in the USA, illustrates that an analysis of cash flow highlighting operating activities, as opposed to working capital, would have predicted the bankruptcy. The case was also instrumental in how the cash flow statement subsequently came to be perceived. In order to understand the evolution and development of the cash flow statement, it is necessary to examine the W. T. Grant Company case because it resulted in one of the greatest pushes for the development of a new format for the cash flow statement.

George W. Gallinger wrote in Liquidity Analysis and Management that cash flow information can bring to light problems that may ultimately lead to business failure, help identify overvalued or undervalued companies, and improve assessments of the quality of earnings. Moreover, drawing upon the example of the W. T. Grant Company, the reader could see that businesses

have failed due to an inability to generate sufficient cash to meet their institutional obligations. Therefore, if the management of a company would evaluate and manage cash flow information more carefully, it could recognize that cash flow problems were occurring. A company that ended in bankruptcy might be operating to this day. Unfortunately, of course the W. T. Grant company case is not the only such example. Across different sources in the literature the author found other similar cases, such as the Penn Central Corporation, the Laker Airways case, the Bowmar Instrument case and many others. As a byproduct of these cases, a new standard was issued in November 1987: Statement of Financial Accounting Standards (SFAS) No. 95 "Statement of Cash Flows".

The Financial Accounting Standard Board clarified the definition of cash flows and the purpose of the standard Statement of Financial Accounting Standards (SFAS) No. 95 "Statement of Cash Flows", requiring the classification of cash receipts and payments according to whether they arose from operating, investing or financing activities. The purpose of the standard was to provide relevant information about cash receipts and payments during the period in order for users to be able to: "… assess the enterprises ability to generate positive future net cash flows ... meet its obligations ... assess the reasons for the differences between net income and associated cash receipts and payments ... and assess the effects on an enterprise's financial position of both its cash and non-cash investing and financing transactions during the period." (FASB, 1987, pp. 4 -6 or 230-10-15-4).

This definition made clear that FASB designed SFAS No. 95 with the main objective of providing users with information to better estimate future cash flows in order to determine a firm's ability to meet future obligations (Ricquebourg, 2013). The Statement required that a statement of cash flows classify cash receipts and payments according to whether they stem from operating, investing, or financing activities, provided definitions of each category, as well as provided guidance regarding the use of the direct or indirect method of reporting.

FASB does not stipulate which of the methods is to be used. Therefore, debates about which method is preferable in which context are ongoing in academic circles. While the debate has not been fully resolved, as the reader might agree, there is additional value in including cash flow training in accounting and management courses (starting from the introductory level) and such training is essential to a comprehensive study of accounting. Therefore, one of the aims of this

research is to ascertain which method of reporting is preferable in the context of Estonian accounting, what difficulties accountants are experiencing in reporting, and whether there is sufficient methodological literature available in Estonia.

For the second part of the research, a survey was conducted using a self-completed questionnaire. The set of closed questions was distributed to participants via a self-administered online research system provided by "KwikSurveys", a free online research tool, and during lectures and seminars at the Tallinn University of Technology (TUT) and Kardis OÜ. The author originally limited the population of the study to accountants attending professional education courses for Chief Accountants at TUT and at Kardis OÜ–the main provider of continuing education courses in the Russian Language in Estonia. Due to the low response rate during the first weeks, the author decided to expand the population of the participants to include more accountants across Estonia. Ultimately the survey was posted on all of the most popular accounting websites and forums, such as www.buh-info.ee, www.erk.ee, www.erpel.ee, www.erk.ee and www.rmp.ee. The questionnaire was launched on March 04, 2015 and was closed on May 04, 2015. Thus, the questionnaire was available to subjects for approximately eight weeks.

The results of the survey and research are discussed in the third chapter of the thesis, where the author also explores the following questions: How clear and how sufficient is the knowledge of Estonian accountants in accordance with the international accounting standard issued as Statement of Financial Accounting Standards (SFAS) No. 95 "Statement of Cash Flows"? How adequate are the methodological materials for educational purposes in Estonia in the local language? The author also investigates the significance of cash flow analysis, which the author argues is underestimated by local managers. Problematic issues with the analysis of the cash flow statement in everyday operations in Estonian enterprises are analyzed.

Finally, the author gives an exploratory overview of the existing literature, highlighting aspects that have yet to be investigated in the context of Estonian accountancy practices. The author seeks to analyze how governing bodies and universities can help local accountants provide and report comparable and transparent financial information, which will be of benefit to investors, managers and other users of financial information.

1. EVOLUTION OF CASH FLOW STATEMENT

1.1 The history of the cash flow statement

Cash flow accounting is one of the oldest forms of record keeping systems, dating back to the Middle Ages. Historically, all deals related to actual cash receipts or payments were recorded on the cash basis with no regard given to the specific timing of these transactions (Edwards, 1996). In the 13th century, double entry bookkeeping and accrual accounting developed, causing a radical change in accounting practices so that the costs of resources used would correspond with the associated revenues generated by those same resources. Matching cost and revenue streams allowed firms to calculate a profit or loss for the reporting period, which was useful in ensuring the accuracy and completeness of the accounting records presented to the owner (Edwards, 1996).

During subsequent centuries the balance sheet was the principal report for the evaluation of the financial position of the firm. Moreover, the balance sheet provided owners with information for the evaluation and monitoring of management outcomes (Ricquebourg, 2013). Following the industrial revolution in the 18th century, the focus shifted from the balance sheet to the income statement (Brown, 1971). “The shift away from the balance sheet as the principal vehicle for reporting the financial position of a firm was a direct consequence of the rise of the modern corporation which had led to growing separation between managers and their owners” (Brown, 1971, p. 48). The development of stock markets and the resulting need to raise additional capital pushed the focus of financial reporting from debt to equity. Therefore, the importance of the income statement increased. Furthermore, governments began to require more detailed disclosure of financial information for the purposes of corporate tax collection and inflation evaluation. Ultimately, in the early 20th century some corporations voluntarily added to the balance sheet and income statement with the statement of funds flow.

Initial widespread global adoption and disclosure regulation of the funds flow statement, and subsequent cash flow statement, was pioneered and heavily influenced by standard-setting bodies within the United States of America, with other countries following suit (Donleavy, 1994).

The Fund statement became very popular among firms and investors in the USA in the 1950's and the 1960's. Unfortunately, due to lack of adequate regulation and the absence of a single standard format, comparisons between firms become problematic giving rise to widespread debates among academics, such as T. A. Lee, A. J. Merrett, C. H. Loyd, G. J. Staubus, A. Drebin, N. Monsen, Y. Ding, T. J. Wang among others.

In 1961 the American Institute of Certified Public Accountants (AICPA) intervened by initiating the launch of Accounting Research Study No. 2 – "Cash Flow" Analysis and The Funds Statement, in an effort to standardize disclosures (Savoie, 1965). Responding to the findings of AICPA in October 1963 the Accounting Principles Board (APB) issued their Opinion No. 3 "The Statement of Source and Application of Funds", which recommended, but did not mandate, the use of a "Statement of Source and Application of Funds" (SSAF) as a supplementary part of a company's annual accounts (CFA Institute, 1964, p.14). By 1971, the APB superseded their prior Opinion No. 3, and issued Opinion No. 19 – "Reporting Changes in Financial Position" mandating the disclosure of a renamed "Statement of Changes in Financial Position" (SCFP) for all companies disclosing an income statement and balance sheet as part of their annual accounts (GAAP, 1971). After ten years of discussions for and against APB No. 19, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 95 "Statement of Cash Flows" which superseded APB No. 19, effective for all companies with financial years ending after July 1988 (FASB, 1987) and coded as ASC 230 Statement of the Cash Flow under the FASB Accounting Standards Codification 230 (ASC 230) beginning from July 1, 2009 (Flood, 2015). The U.S. was one of the first countries to introduce a standard on cash flow disclosure and define it in the form which is widely used to this day.

1.2 The W. T. Grant Company Case

The W. T. Grant Company case resulted in one of the greatest pushes for the development of a new format of the cash flow statement. The company was a United States-based chain of retail stores founded by William Thomas Grant that operated from 1906 until 1975. The stores were generally of the convenience store format located in downtowns. In several years it grew into the nation's second-largest retail chain of variety stores (Grant, 2015).

In an unexpected reversal of fortune W. T. Grant declared bankruptcy in 1975, constituting the largest retail industry bankruptcy in U.S. history (New York Times, 3 Oct. 1975). In the early 1970s, the firm had been the seventeenth largest retailer in the United States with 1,200 stores producing profits of $38 million on $1.6 billion in sales (Business Week, 19 July 1976, p. 60). Yet within a few years this giant corporation lost $288 million before filing for bankruptcy (Business Week, 19 July 1976, p. 60). By that time Grant had closed 1,073 stores and laid off 82,000 workers. Its banks had "written off approximately $234 million in bad loans and its suppliers $110 million in receivables" (Business Week, 19 July 1976, p. 60). Because not a single analyst, banker or investor had anticipated this unprecedented disaster, the W. T. Grant Co. case received a wide range of publicity in national newspapers and magazines, such as the Financial Times, the Financial Chronicle, Financial Analysts Journal, Fortune, Financial World, Age Executive, Forbs, Business Week, The Economist and many others, not to mention the attention of the accounting board which examined the case in extensive academic discussions.

Why had such a giant company fallen so fast? Many authors, such as D. S. Grasberg and G. W. Gallinger, discussed all issues related to the W. T. Grant failure and all of them agreed that poor management decisions made in the years leading up to the bankruptcy resulting from a lack of accurate and comprehensive financial information, information that would have revealed the inevitability of such an outcome, led to the unforeseen bankruptcy.

The W. T. Grant Company achieved a major position in the variety-store business through the profitable operation of five-and-ten stores, particularly in small towns. A variety store is a retail establishment that sells a wide range of inexpensive household goods (New York Times, 1983). Such retailer establishments target densely populated, blue-collar neighborhoods with relatively low automobile traffic.

The five-and-ten concept was pioneered in Pennsylvania in the late 19th and early 20th centuries. Frank Woolworth's first successful store (his earlier venture failed after three months) opened in Lancaster in 1879. The first Newberry's was located in Stroudsburg, the first G. C. Murphy's in Pittsburgh, and the first McCrory's in Scottdale. The decline of the five-and-ten store model was precipitated by the nascent popularity of the automobile and its commercial by-product, the suburban shopping mall (Grant's web page, 2015).

In reaction to the evolving trend, management of the company began a large-scale capital expansion program, as did all other major retailers during the period. The president of the W. T. Grant Company at the time, Richard Mayer, as part of the race for sales, fast-tracked a major expansion program without any apparent contingency plan to address the risks of excessive growth (Business Week, 19 July 1976, pp.60-62).

As a result of the rapid development, stores began to operate in autonomous mode. Store managers were independently responsible for accounting and inventory information without any supervision or coordination from headquarters. Moreover, the expansion program of the 1960s was not guided by a clear, unifying direction. In 1970, Forbes called Grant "The Great What-is-it?" (Forbes, 1970). Grant ceased being a variety or discount store, yet it was nonetheless not upscale enough to be categorized as a department store.

Top management was hampered in its assessment of the business by lack of communication with store managers, lack of knowledge about its customers, inadequate control of its internal operations, and insufficient information about its external environment. Management failed to detect the threats to the company's survival (Business Week, 1975).

Typically, to analyze how expansion strategies benefit profits, a retailer will measure sales per square foot, a popular sales metric used in the retail industry. A sale per square foot is simply the average revenue a retail business creates for every square foot of sales space (Investopedia, 2015). If such an analysis had been made by the management of W. T. Grant, it would have showed that the company's expansion was not generating adequate profit.

There were clear signs of declining health in the business. Sales volume per square foot declined 33% from 1966 to 1975. Although sales increased from $1.2 billion in 1969 to $1.8 billion in 1974, "inventories more than doubled to $450 million" (Business Week, 19 July 1976, p. 60). The company's earnings per sales dollar also declined from 7 cents in 1969 to 2 cents in

1973. Whether such an analysis was made at the time or not, the author cannot determine, yet it is clear that management was not fully aware of the relationship between its actual inventories and accounts receivable.

Another burden for the company was its lax system of credit. Credit was easy to obtain from Grant, and the repayment schedule was as low as one dollar per month for as long as 36 months (Business Week, 19 July 1976). Employee bonuses depended on increasing sales. Managers were expected to maximize profits. Managers, under constant pressure to increase sales, were also responsible for approving credit to customers. As a result the company had 1,200 credit officers whose target was to promote credit sales and give credit to every person who could breathe (Business Week, 19 July 1976). As a result of this easy-credit environment, by the year 1971, according to John G. Curtin, financial vice president and treasurer at Grant, there was a steady and significant "rise in write-offs of uncollectible credit accounts. Uncollectible rose from 2.1% in fiscal 1970 to 3.2% in fiscal 1972" (Women's Wear Daily, 4 Feb. 1977, p. 24).

On top of this, managers undertook some creative accounting manipulations. They consolidated outstanding accounts to “make them current”. They “would take two different types of credit accounts of a Grant customer and consolidate them into one account. And where one or both of the accounts were delinquent, managers would make the new account current” (Glasberg, 1989, p.27).

Furthermore, Grant had a policy of “refinancing” a delinquent account: “A new credit agreement would be arranged whereby payments would be spread out over a longer period of time and the . . . new account would thereby be characterized as current.” Delinquent customers could make their accounts current by paying small amounts of money toward them (Glasberg, 1989, p. 28).

Faulty and unchecked managerial decisions, such as rapid overexpansion, inadequate in-house credit controls, and an incomprehensible inventory system, along with an unfocused attempt to change from the convenient store segment to the department store segment, led to a lack of cash flow and the unexpected bankruptcy in 1975.

Furthermore, as George W. Gallinger mentioned in his book Liquidity Analysis and Management, W. T. Grant had been looked upon favorably by the capital markets and, with its unpredictable bankruptcy, had in a sense fooled the capital markets. The main explanation for the

possibility of such an enormous misconception was that investors and creditors failed to understand the economic (i.e., cash) flows of the business.

Analysts did not see trouble on the horizon for the Grant Company until 1974, although they could have predicted it much earlier. As was common practice at the time, analysts used traditional ratio analysis of Grant's financial statement and ignored the cash flow analysis. As James Lagray and Clyde Stickney have shown in their research "Cash Flows, Ratio Analysis and W. T. Grant Company Bankruptcy" Published in Financial Analysts Journal, No. 8, p. 36, there is a big difference between trend analyses conducted on the accrual method based on the balance sheet and the analysis of cash flow from operating activities. As we can see from Figure 1, there is a big difference between the working capital, net income and cash flow generated from operations.

As Gallinger mentioned, while net income and working capital were relatively stable up to 1974, operational activity generated negative income as early as 1969 and was a "net user". Figure 1 shows that if the cash flow analysis would have been performed with different methods in earlier years, Grant's bankruptcy would not have come as a surprise. Grant's continued inability to generate cash from operations should have provided investors with an early signal of a problem.

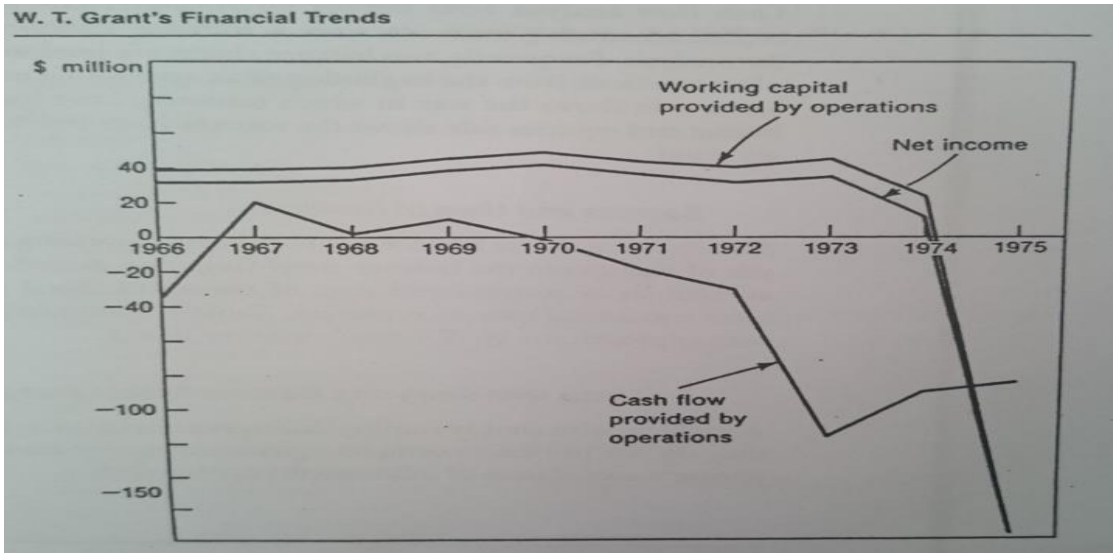

Figure 1. W. T. Grant's Financial Trends

Source: James Lagray and Clyde Stickney, "Cash flow, Ratio Analysis, and the W.T. Grand Company bankruptcy'', Financial Analysts Journal, July-August 1980.

The failures fully understand the cash flows of the business lead to a great losses for investors, brokers and employees of the company. The need for a new cash flow statement was obvious and debates have begun.

1.3 From the Fund statement to the Statement of cash flows

In 1963 the Accounting Principles Board issued Opinion No. 3, The Statement of Source and Application of Funds. Support of that Opinion by the principal stock exchanges as well as its acceptance by the business community resulted in a significant increase in the number of companies that present a statement of sources and uses of funds (funds statement) in annual financial reports to shareholders. APB Opinion No. 3 encouraged, but did not require, presentation of a funds statement. In view of the widespread recognition of the usefulness of information about sources and uses of funds, the Board had considered whether the presentation of such a statement should be required to complement the income statement and the balance sheet. APB Opinion No. 3 also offered considerable latitude as to the form and content of funds statements, and subsequently practice has varied widely. The Board has, therefore, also considered establishing clear guidelines for presenting such statements. Hence, the APB Opinion No. 19 was issued in 1971 – "Reporting Changes in Financial Position" mandating the disclosure of a renamed "Statement of Changes in Financial Position" (SCFP) for all companies submitting an income statement and balance sheet as a part of their annual accounts.

Many academics (such as Taylor, 1979; Holmes, 1976; Han, 1981; Smith, 1985; and Loyd, 1978) had criticized this Opinion and stated that the fund flow statement was confusing and misleading. The main critics were preoccupied with the definition of "funds". As R. A. Rayman wrote in his article "Is Conventional Accounting Obsolete?", published in Journal of Accountancy in 1970, p. 423: "The fact that funds analysis has not made more headway may be attributable to the absence of a definition of funds which is generally accepted. There is, in fact, a

variety of definitions ranging over the whole spectrum of liquidity, from cash at one extreme to total resources, at the other, with compromises like working capital somewhere in between". The lack of clear objectives and purpose of the SCFP was underlined by Loyd and later acknowledged by the Financial Accounting Standard Board (FASB, 1987). In order to meet all objectives of the financial report, the need for a new statement that would fill the gap between the balance sheet and the income statement was evident.

Responding to the growing criticisms levelled against APB No. 19, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 95 "Statement of Cash Flows". It clarified the definition of cash flows and the purpose of the standard, requiring the classification of cash receipts and payments according to whether they arose from operating, investing or financing activities. The purpose of the standard was to provide relevant information about cash receipts and payments during the period in order for users to be able to: "…assess the enterprise's ability to generate positive future net cash flows...meet its obligations...assess the reasons for the differences between net income and associated cash receipts and payments...and assess the effects on an enterprise's financial position of both its cash and non-cash investing and financing transactions during the period." (FASB, 1987, pp. 4-6).

In July 1, 2009 Financial Accounting Standards Board launched the FASB Accounting Standards Codification as the single source of authoritative, nongovernmental, generally accepted accounting principles in the USA. The Codification did not change any of the standards. Rather it reorganized and brought to uniform and logical order the thousands of U.S. GAAP pronouncements, resulting in roughly 90 accounting topics presented according to a consistent structure. It also included relevant Securities and Exchange Commission (SEC) guidance that followed the same topical structure across separate sections of the Codification. The SFAS No. 95 received code ASC 230 – Statement of Cash Flows (Flood, 2015). The FASB Codification System facilitated better accounting decisions by giving accounting professionals a user-friendly computerized environment to assess important accounting information, and with the benefit of real-time updates, created safeguards to prevent any risk of noncompliance.

This definition made it clear that FASB designed SFAS No. 95 (ASC 230) with the main objective of providing users with information to better estimate future cash flows in order to determine a firm's ability to meet future obligations (Ricquebourg, 2013). The Statement

required that a statement of cash flows classify cash receipts and payments according to whether they stem from operating, investing, or financing activities, supplied definitions of each category, as well as provided guidance regarding the use of the direct or indirect method of reporting.

FASB made the determination to encourage, but not require, the use of the direct method of reporting. Both the direct and indirect methods require cash flows to be classified according to operating, investing, and financing activities. The different presentation affects the operating section only. The investing and financing sections do not differ between the two presentations.

The direct method also referred to as the income statement method, reports major classes of operating cash receipts and payments. In this respect, it is more consistent with the objective of SFAS 95 (coded ASC 230). Supporters of the direct method contend that it is more revealing of a company's ability to generate sufficient cash from operations to pay debts, reinvest in operations, and make distributions to owners. Detractors point out that many corporate providers of financial statements do not currently collect information that would allow them to determine the information necessary to prepare reports accurately using the direct method. More important, the direct method effectively presents income statement information on a cash rather than an accrual basis and may erroneously suggest that net cash flow from operations is as good as, or better than, net income as a measure of performance (Mahoney, 1988).

The indirect, or reconciliation, method focuses on the difference between net income and net cash flow from operations. Advocates of the indirect method note that it provides a useful link among the statement of cash flows, the income statement, and the balance sheet. Critics point out that the direct method requires a supplemental disclosure to present a reconciliation of net income and net cash. The incremental cost of providing the additional information disclosed in the direct method is not significant.

Table 1.1 Cash flow statement, comparison of direct and indirect methods of preparation (euro)

ZET Company			
Cash Flow Statement			
12 Months Ended December 31, 2014 in Euro			
INDIRECT		DIRECT	
Net income	30,000		
Adjustments to reconcile		Cash received from customers	400,000
Net income to net cash:		Cash paid to suppliers	(260,000)
Depreciation	20,000	Cash paid to employees	(70,000)
(Increase in receivables)	(12,000)	Other cash operating expenditures	(30,000)
Decrease in inventory	10,000		
(Decrease) in payables	(8,000)		
Net cash provided by operating activities	40,000	Net cash provided by operating activities	40,000

Source: Tantatape B., 2004

Since the issuance of SFAS 95, the debate has continued over the virtues of the direct versus the indirect method. Advocates for the direct method claim it better fulfills stakeholders' informational needs because of the breakdown of major classes of cash inflows and outflows (Collins, 1990). In addition, the direct method is simpler to understand and provides performance evaluation via the expected and actual cash flows (Bohannon and Edwards, 1993). Those in favor of the indirect method, such as Carslaw and Mills, point out that one of the major rationales cited in SFAS 95 (ASC230) for requiring a statement of cash flows is to assist users in determining the reasons for the difference between net income and associated cash receipts and payments which provides a basis for evaluating the quality of income.

The direct method is the preferred method under FASB 95 and presents cash flows from activities through a summary of cash outflows and inflows. However, this is not the method

preferred by most firms as it requires more work. Under the direct method, (net) cash flows from operating activities are determined by taking cash receipts from sales, adding interest and dividends, and deducting cash payments for purchases, operating expenses, interest and income taxes. The advantage of the direct method over the indirect method is that it reveals operating cash receipts and payments.

Although the standard-setting bodies encourage the use of the direct method, it is rarely used because, according to U.S. GAAP, a company which reported the cash flow statement under the direct method is required to provide supplementary information with an indirect reconciliation. As a result, companies often prefer to report just once using the indirect method as opposed to double-reporting by the direct method plus indirect reconciliation. The American Institute of Certified Public Accountants reports that approximately 98 percent of all companies choose the indirect method of cash flows (Edwards and Hermanson, 2014, p. 678).

Under the indirect method of presenting the cash flow statement, the presentation of the statement begins with net income or loss, with subsequent additions to or deductions from that amount for non-cash revenue and expense items, resulting in the net income provided by operating activities. The direct method of presentation is favored by standard setters because it is easily accessible from charts of accounts that a business normally maintains in its accounting books. The indirect method is less favored by the standard-setting bodies since it does not give a clear view of how cash flows through a business (unlike the direct method of presentation).

The information is provided in a different format if the direct or indirect method of preparing the statement of cash flows is used, but ultimately the total cash amount provided by operating activities is the same.

The indirect method assumes everything recorded as revenue was a cash receipt and everything recorded as an expense was a cash payment. Under the accrual basis of accounting, revenues and expenses are recorded following the revenue recognition and matching principles which do not require cash receipts to record revenues or cash payments to record expenses. The operating activities section starts with net income per the income statement and adjusts it to remove the significant non-cash items.

Significant non-cash items on the income statement include depreciation and amortization expenses, as well as gains and losses from the sales of assets or retirement of debt. Since

depreciation expenses and amortization expenses are deducted in the calculation of net income (expenses are subtracted from revenues to determine net income) and because depreciation and amortization expenses do not result in cash payments by the company, depreciation expenses and amortization expenses are added back to net income. The investing and financing sections of the statement of cash flows are prepared in the same way for the indirect method as for the direct method (Harold, Dixon, and Davidoff, 2007, pp. 80-92).

This indirect format links the cash from operating activities to the accrual accounting income statement results, clarifying the distinction between the two. The income statement reflects the operations of the firm measured on the accrual basis rather than on a cash basis. Most of the items in an income statement are related to operating activities, as defined by the cash flow statement rules. Therefore, it is possible to reconcile the net income from the income statement with the cash from operating activities. This is accomplished by removing the effects of items that appear on the income statement, but do not affect liquidity. Examples of such items include depreciation and amortization expenses, items where the timing between accrual and liquidity differs (e.g., changes in accounts receivable, accounts payable, prepaid), and a few items that appear on the income statement but are not categorized as operating activities for cash flow purposes (e.g., gains or losses from sale of Property Plant and Equipment (PP&E)–cash flows from the sale of PP&E are included in the investing activities section.

According to the U.S. GAAP, companies can choose to do one of the following:

• Report the cash flow statement under the direct method with an indirect reconciliation provided as supplementary information, or

• Report the cash flow statement under the indirect method.

Understandably, most firms opt to create only one format, the indirect method, and present it on the face of the cash flow statement, but which is the more useful and fair method in disclosure of the operating cash flow is one area of debate among academics, standard setters, preparers and users. Central to this debate is whether or not to permit the choice of disclosing operating cash flows “indirectly” or “directly”. Indirect reporting requires reconciliation between profits and net operating cash flow by adjusting for the effects of accrual accounting and other non-cash transactions. The direct method, by contrast, requires disclosure of the actual gross cash

receipts and payments on the face of the cash flow statement, supported with a supplemental "indirect" reconciliation.

Regardless of the direction the academic discussion of this topic ultimately follows, the most pressing issue is how practical it will be for accountants to meet the requirements and how useful the reports will be for managers in the everyday operation of companies. Therefore, the main topic for the current research is to evaluate which method is presently most acceptable to accountants in Estonia; how often cash flow data is used to evaluate, forecast and control everyday operations; what methods are most commonly used to prepare cash statements; and how deep the understanding of the benefits of the cash flow statement and its analysis is among Estonian accounting and management professionals.

2. RESEARCH DESIGN AND METHODOLOGY

2.1 Research design

In order to analyze the current situation a wide range of research avenues was pursued. Qualitative methods were preferred, but in order to analyze contemporary accounting practices, quantitative resources and methods also played a key role.

For the first part of the research qualitative resources were collected from a wide selection of papers and books. Periodicals were considered the best source in this case, as they tend to provide very broad perspectives on the range of relevant topics, issues and discussions. Furthermore, periodicals are the most up-to-date sources available, shedding light on the most recent developments. The selected articles were published in accounting and management magazines from around the world, but mostly from within the USA.

For the second part of the research, a self-completed questionnaire was conducted. Two sets of closed questions were distributed to subjects via a self-administered online research format, as well as during lectures and seminars at the Tallinn University of Technology (TUT). Quantitative research was helpful in substantiating the results of the qualitative analysis (Creswell, 2011). According to Creswell, this type of research design represents standard practice, if the author aims to explain survey results in greater detail. Additionally, qualitative analysis provides deeper insight into current accounting practices in Estonia. The combined research methodologies increase the reliability and validity of the research.

The data was gathered via a self-administered online research format using "Kwiksurveys.com", a free online research tool. Despite the fact that free version does not have all of the features that the full version offers, the author believes that the functionality of the program was sufficient for the requirements of this thesis. One of the advantages of the "Kwiksurveys.com" online tool is that it enables researchers to iterate a questionnaire easily and

quickly test various question types. Also, the existing templates made the survey interface very user-friendly with a straightforward design process. The main disadvantage of the free version was that data exporting to SPSS was not available. This shortcoming was simply addressed by manually exporting the data using Excel as an intermediary.

2.2 Sampling procedures

The author elected to limit the population of the study to accountants attending professional education courses for Chief Accountants at TUT and at Kardis OÜ – the main provider of continuing education courses in the Russian Language in Estonia.

Samples for the quantitative part were selected on a non-probability basis (purposive sample) because the number of Estonian accountants participating in a continuing education program is rather limited. Thus, collecting data on a probability basis would have been inefficient and time-consuming.

The anticipated sample size was between thirty to one hundred subjects. In the end, the questionnaire was distributed to approximately three hundred contacts from which eighty took part in the survey. Out of these eighty submissions, there were four questionnaires which were not completed in full. The remaining seventy-six responses were complete. Out of those seventy-six, thirty-five were filled out by accountants and forty-one by students in the Audit Master's degree program at TUT. After excluding unusable responses, the response rate came to slightly over twenty-five percent. According to the Estonian Chamber of Commerce and Industry (2010) and Praxis (2012), the typical response rate for their studies is approximately ten percent. Therefore, the author considers this response rate to be adequate.

2.3 Respondent profile

In total, seventy-six respondents filled out the questionnaire in full. Out of the seventy-six, forty-one were people participating in the continuing education programs (Group One) and thirty-

five were students in the MA Audit program (Group Two). The following graphics summarize the demographic data of the respondents.

In Group One twenty-nine percent have a postgraduate degree. In Group Two one hundred percent are currently obtaining a Master's degree in Auditing (see Table 2.1 and Figure 2).

Table 2.1 Level of education

Education	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
College	3	7%	1	3%	4	5%
Graduate	24	59%	31	88%	55	72%
Postgraduate	12	29%	0	0%	12	16%
ACCA	0	0%	0	0%	0	0%
Other	2	5%	3	9%	5	7%
Total results	41	100%	35	100%	76	100%

Source: created by the author.

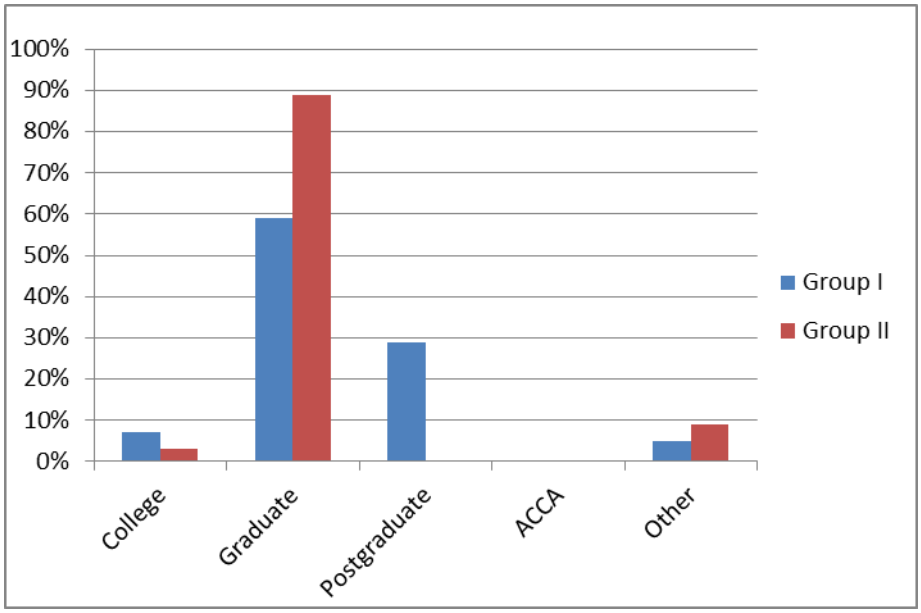

Figure 2. Level of education.

Source: created by the author.

In Group One, fifty-six percent of the participants possess a graduate degree in Accounting and seventeen percent a graduate degree in Finance. In Group Two forty-six percent of respondents possess a graduate degree in Accounting; eleven percent in Finance and forty-three percent in Auditing (see Table 2.2 and Figure 3).

Table 2.2 Specialization

Specialization	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
Accounting	23	56%	16	46%	39	51%
Finance	7	17%	4	11%	11	14%
Other	11	27%	15	43%	26	35%
Total results	41	100%	35	100%	76	100%

Source: created by the author.

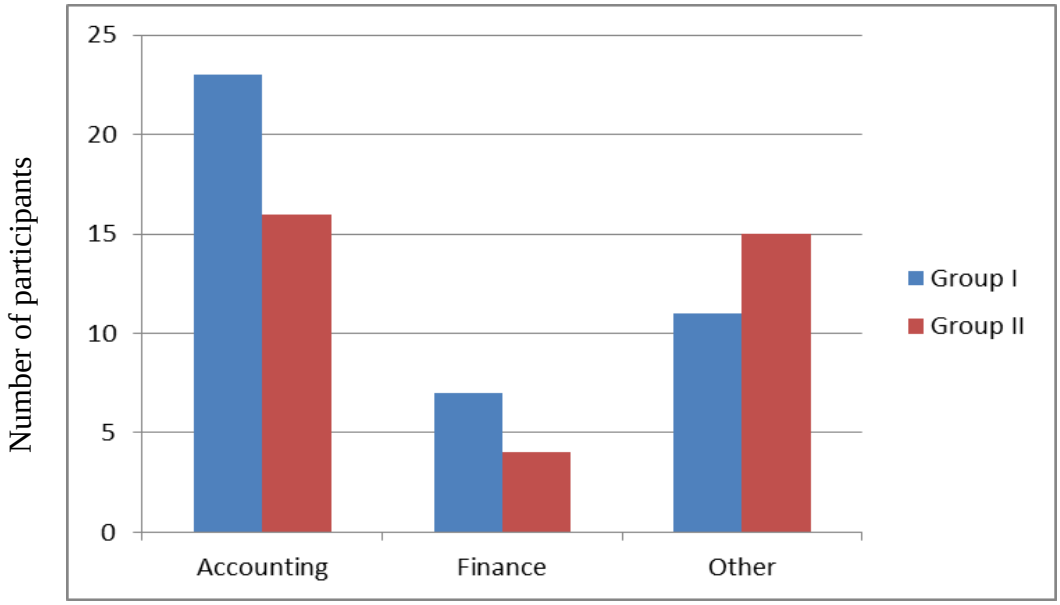

Figure 3. Participant's specialization.

Source: created by the author.

Most of the respondents in Group One, i.e., those who were enrolled in the continuing education program, are between 36 and 45 years old (forty-one percent) and twenty-four percent are in the 26-35 age bracket. Most of the respondents in Group Two are between 18 and 25 years old (forty-eight percent) and forty percent are in the 26-35 age brackets (see Table 2.3 and Figure 4).

Table 2.3 Respondents age

Age	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
18-25	0	0%	17	48%	17	22%
26-35	10	24%	14	40%	24	32%
36-45	17	41%	3	9%	20	26%
46-55	10	24%	1	3%	11	15%
over 55	4	11%	0	0%	4	5%
Total results	41	100%	35	100%	76	100%

Source: created by the author.

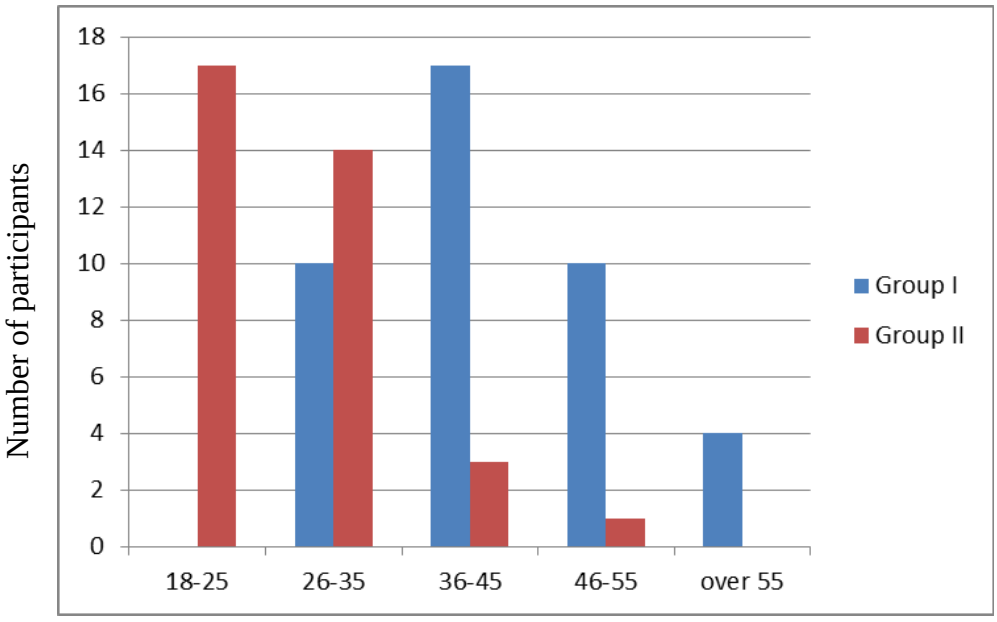

Figure 4. Respondents age in the Group One and Group Two.

Source: created by the author.

In Group One fifty-one percent of respondents speak Estonian at home; twenty-nine percent speak Russian, and twenty percent English. In Group Two, out of thirty five participants, thirty-three speak Estonian at home and only two speak Russian at home, which results in ninety-four percent and six percent respectively (see Table 2.4 and Figure 5).

Table 2.4 Language used at home

Home language	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
English	8	20%	0	0%	8	11%
Estonian	21	51%	33	94%	54	71%
Russian	12	29%	2	6%	14	18%
Total results	41	100%	35	100%	76	100%

Source: created by the author.

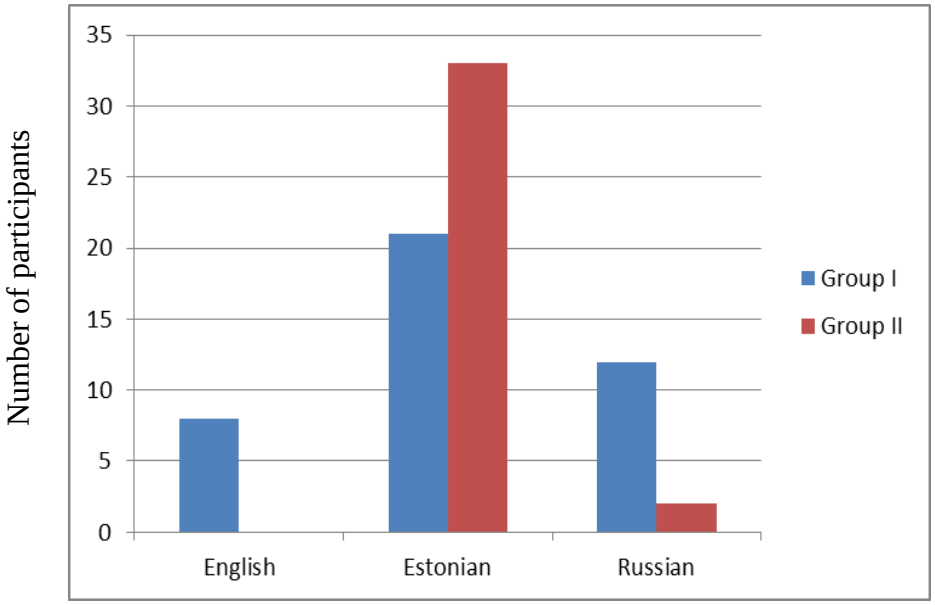

Figure 5. Language used at home.

Source: created by the author.

In both groups Estonian is the main working language, but in addition to the Estonian language, forty-four percent in Group One use English as the main language at work, and twenty-two percent use Russian. In Group Two, sixty-six percent of respondents count English as their main working language (see Table 2.5 and Figure 6).

Table 2.5 Language used at work.

Language at work	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
English	18	44%	23	66%	41	54%
Estonian	1	2%	12	34%	13	17%
Russian	22	54%	0	0%	22	29%
Total results	41	100%	35	100%	76	100%

Source: created by the author.

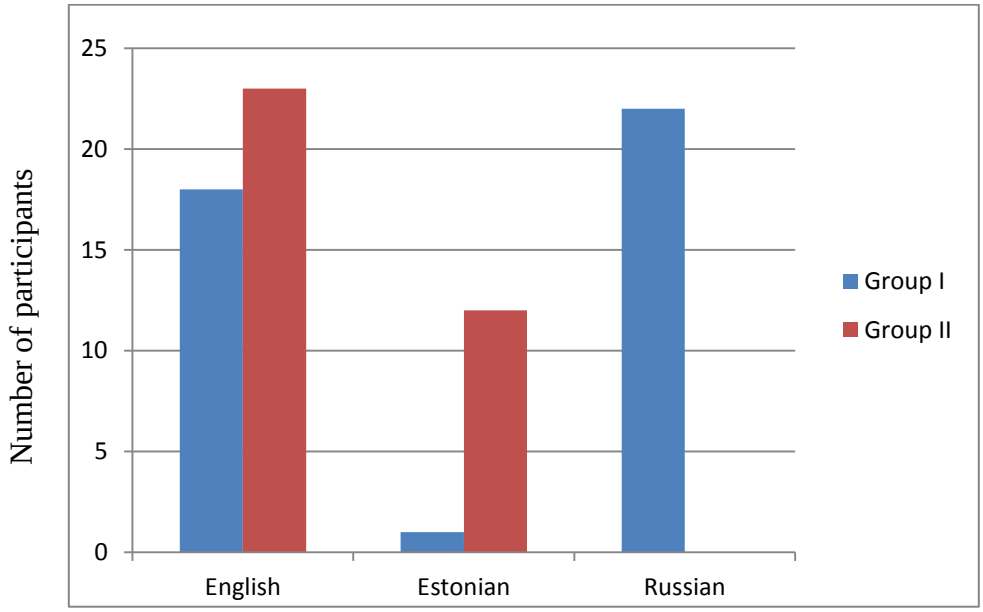

Figure 6. Language used at work.

Source: created by the author.

From Table 2.5 and Figure 6 a positive trend can be detected. The younger population of accountants and future auditors are more fluent in the English language; eighteen percent in Group One and sixty-six percent in Group Two use English, in addition to the Estonian language, in the work environment. Therefore, for these subjects it is easier to obtain information regarding cash flow terminology and interpretations of the International Accounting standards. Moreover, they can access diverse accounting publications, such as accounting textbooks published abroad, which have extensive methodological materials pertaining to the cash flow statement. In addition to English-language textbooks, they can also access many different publications, including academic articles, about the major issues surrounding cash flow reporting, as well as take part in international discussions of cash flow issues.

What should the rest of the working population of accountants in Estonia do? As evidenced by the research, two-thirds of respondents do not speak English at a professional level and suffer from a lack of access to information. Consequently, discrepancies in interpretation of the main terminology and, therefore, in the reporting of cash flow will be substantial.

2.4 Data collection procedures

The questionnaire was based on the main terminology of the FASB issued Statement of Financial Accounting Standards (SFAS) No. 95 "Statement of Cash Flows", coded under ASC 230. Questions were translated into the Estonian and Russian languages. However, adjustments and additions were made to questions if the author deemed it necessary. The questionnaire begins with a cover letter introducing the topic. Likert type 5-scale questions were used in addition to general respondents profile questions. The continuous scales included ranking from one to five: 1 = totally agree / entirely applicable, 5 = do not agree / not applicable at all. The exact design of the questionnaire, including all of the questions asked, can be found in Appendix 1.

Prior to sending out the questionnaire, a round of pilot-testing was carried out. The clarity of the questions and the overall ease with which the questionnaire could be completed were examined by five pilot-testers. Based on their initial feedback, adjustments and corrections were made to the questionnaire. The test group was specifically asked to comment on the clarity of the

questions, the user-friendliness of the interface, the appropriateness of the choices, and the time required to complete the questionnaire. The pilot-test results indicated that a few modifications needed to be made to the questionnaire. Changes were made to address complaints about lack of clarity and the time-consuming nature of one question in particular. The final draft of the questionnaire was launched on March 4, 2015 and closed on May 4, 2015. Thus, the questionnaire was available to subjects for approximately eight weeks.

The self-administered questionnaire was distributed via e-mail and social media channels, including Facebook and websites of local professional organizations such as www.rmp.ee. In addition, hard copies of the questionnaire were distributed during lectures and seminars at TUT and Kardis OÜ. In order to achieve a higher response rate, the online marketing service Mail Chimp was also used. This service enabled the author to monitor open and click rates as well as the overall response rate. Every two weeks, the questionnaire was redistributed to those contacts that had not yet opened the e-mail. Each time the questionnaire was redistributed additional responses were gathered.

The contacts' email addresses were sourced from the Kardis OÜ administration and various accounting societies in Estonia.

2.5 Data analysis procedures

The quantitative data was analyzed using Microsoft Excel tabular descriptions and by analysis of response frequencies (Appendix 2 & 3). It has been debated by many authors whether Likert type data is considered ordinal or interval. For example, Argyrous (2005) considers Likert type data to be ordinal due to its equidistance; on the other hand, Brown (2011) argues that Likert scales can be treated as interval scales. Authors, such as Baggaley and Hull (1983), and Maurer and Pierce (1998) (as cited in Brown 2011) have proven that Likert scales can be treated as interval scales. Thus, weighted averages of Likert items were calculated for response category visualization (Appendix 2, 3 & 4).

As discussed above, Likert scales were treated as interval data, enabling the Likert items to be treated as an average. According to Brown (2011), taking a sum or average of a Likert item

will result in a Likert scale, which then can be analyzed further. Analyzing Likert scales, instead of individual Likert items, is accepted as a more reliable mode of analysis (Brown, 2011). Due to the relatively small sample size, the author was not able to perform factor analysis to statistically reduce data and group Likert items. This, however, would have been a good data reduction method and would have helped to find factors and their path dependencies. Alternatively, establishing a separation between cash flow statement preparation and cash flow statement analysis groups can be justified by the critical differences of their theoretical backgrounds. The author created the questionnaire by taking Li et al. (2011) as an example and thus, the questionnaire's Likert-scale questioner was formulated taking into account the statements' general topic.

3. RESULTS AND DISCUSSION

3.1 Direct vs indirect method of the cash flow report preparation

From the survey results we can see that seventy-six percent of the respondents in Group One and sixty percent of Group Two currently use the indirect method for cash flow statement preparation (see Table 3).

Table 3. Method of preparation of the cash flow statement.

Method of preparation of the cash flow statement	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1.Direct method	10	24%	6	17%	16	21%
2. Indirect method	**31**	**76%**	**21**	**60%**	**52**	**68%**
0. Do not use	0	0%	8	23%	8	11%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	1.76	100%	1.78	100%	1.76	100%

Source: created by the author.

This result is not surprising. It merely confirms that accountants in Estonia as well as Accountants in the USA (Edwards and Hermanson, 2014, p. 678) prefer to use the indirect method, with the Likert scales average of 1.76 and 1.77 in Group One and Two respectively.

It can be readily explained why the indirect method is favored in the USA. Although the Accounting Board believes that the direct method provides information that is more useful and encourages firms to follow the direct method (Krishnan and Largay, 2000), the FASB requires that a reconciliation of net income to net cash flows from operating activities be reported separately in the notes of the cash flow report when the direct method is employed. The indirect method of reporting operating cash flows is identical to the required notes of the direct method

(Flecherand Ulrich, 2010). This means that, if any of the USA companies elect to use the direct method of reporting operating cash flows, they will have to reconcile it with the indirect method in the notes of the cash flow statement.

Therefore, none of the cost-effective companies will voluntarily choose to subject their work to a double-reporting method. As a result, companies prefer to report just once by using the indirect method instead of double-reporting by using the direct method plus indirect reconciliation. The American Institute of Certified Public Accountants reports that approximately ninety eight percent of all companies choose the indirect method of reporting cash flows (Edwards and Hermanson, 2014, p. 678).

In Estonia the reconciliation requirement by means of the direct method does not exist, and accountants choose the most suitable method of reporting for their company's unique needs. As we can see twenty one percent of all respondents in Estonia choose the direct method of reporting operating cash flows. When compared with the indirect method, the direct approach presents a more concise, higher quality, easier to understand information and a generally more user-friendly format for managers not in possession of extensive accounting knowledge (O'Leary, 1988). Therefore, even before cash flow disclosures became standardized, academics and managers had begun to express their preference for the direct approach (e.g., Paton, 1963; Heath, 1978; Lee, 1981; Thomas, 1982; Ketz and Largay III, 1987). Simply because the direct method is more consistent with the objective of a cash flow statement (FASB, 1987, par. 111), it improves the predictability of future operating cash flows (e.g., Orpurt and Zang, 2009; Cheng and Hollie, 2008; Clinch et al., 2002; and Krishnan and Largay, 2000), and provides more useful information to both creditors and investors (Paton, 1963; Sorter, 1982; Thomas, 1982; Nurnberg, 1983; and Heath, 1987).

Nevertheless, sixty-eight percent of respondents report using the indirect method due to the fact that the information required for the direct method is hard to generate. But to confirm that hypothesis, it will be necessary to conduct additional research and interviews with Estonian accountants in order to determine the reason for this choice conclusively.

Which of the methods provides a better outcome is still open for discussion. Standard-setters often argue that by decomposing operating cash flows into cash receipts and cash payments the direct method provides a better prediction of future operating cash flows, which is

crucial for the successful operation of any business. Several academic studies support this view (Krishan andLagray III, 2000; Clich and Sin, 2002).

However, as we can see, the predominant method in accounting practice is the indirect method, which transforms operating cash flows into potential cash flows (funds from operations) and short-term accruals.

Since both of these methods have their respective advantages and disadvantages, one method can be superior to the other in certain specific contexts. The author proposes that both methods are necessary to create the truest and most fair representation. Furthermore, the simultaneous use of the direct and indirect methods will assist investors in making better decisions (Clinch; Sidhu and Sin, 2002). Broome, in his article called "Time for change" in the Financial Analyst Journal in 2004, also argued that coupling the direct method with a more understandable reconciliation of cash flow from operation to net income will improve the information available to investors and creditors. The additional cost to a corporation is a small price to pay for the more transparent disclosure of corporate cash flows and the resulting restoration of confidence in the financial reporting system.

3.2 New regulations updates

The survey findings confirmed that accountants in Estonia are in constant need of updates on changes to international accounting standards provided in the appropriate language (see Table 4).

Estonia faced challenges in 2004 when new regulations came into effect, and the data confirms that such challenges are still appreciable. Enforcement of accounting standards in both public interest entities and small and medium-sized enterprises has been and remains a challenge for Estonia (World Bank report on the observance of standards and codes ROSC, 2004). It seems that the suggestions given by the World Bank to Estonia were not fully implemented, and the Estonian authorities and educational institutions have yet to follow the guidance of the 2004 report. The report recommended that Estonia enhance its accounting regulations and practices by reviewing professional education, quality assurance, and disciplinary mechanisms, and that the

Financial Supervisory Authority pursues efforts to strengthen the enforcement of accounting standards (ROSC, 2004). In addition, policy makers must monitor ongoing changes to the International Financial Reporting Standards and the relevant portions of European Union law. These changes represent the international response to corporate scandals and the pressing need for improvements to international corporate reporting practices in many areas of accounting, especially in the area of cash flow reporting.

Table 4. Question one: "Accountants in Estonia need constant updates about changes to international accounting standards in the appropriate language."

Q1 Would you agree that Accountants in Estonia need constant updates about the changes of the international accounting standards in convenient language.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**15**	**37%**	**17**	**49%**	**32**	**42%**
2. Tend to agree	**19**	**46%**	**11**	**31%**	**30**	**39%**
3. I doubt; it is difficult to answer	0	0%	4	11%	4	5%
4. Tend do not agree	5	12%	3	9%	8	11%
5. Do not agree	2	5%	0	0%	2	3%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	2.02	100%	1.80	100%	1.92	100%

Source: created by the author.

Such a pressing need for additional explanatory material for Estonian accountants is revealed by this research as well. Ninety-one percent of both groups are in total agreement or tend to agree that additional methodological materials with explanations in the Estonian and Russian languages would be beneficial for any accountant and manager in Estonia (see Table 5).

Table 5. Question seven: "Additional methodological materials with explanations in the Estonian and Russian languages will be beneficial for any accountant and manager in Estonia."

Q7 Additional methodological materials with the explanation in Estonian and Russian languages will be beneficial for any accountant and manager in Estonia, especially in comparison to IFRS and interpretation of main definitions and terminology in both languages.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**22**	**54%**	**20**	**57%**	**42**	**55%**
2. Tend to agree	**15**	**37%**	**12**	**34%**	**27**	**36%**
3. I doubt; it is difficult to answer	2	5%	3	9%	5	7%
4. Tend do not agree	2	5%	0	0%	2	3%
5. Do not agree	0	0%	0	0%	0	0%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	1.61	100%	1.51	100%	1.57	100%

Source: created by the author.

3.3 Professional education and training materials

The same report conducted by the World Bank in 2004 (ROSSC, 2004) states that accounting education and training lags behind the needs of the rapidly developing Estonian economy. Although the accounting curriculum at leading Estonian universities does adhere to internationally recognized standards, students indicated that some faculty members have not undergone adequate retraining and have not adapted their curriculum to meet the demands of the current Estonian economy and accounting practices.

Research conducted for this study in relation to cash flow reporting and methodology confirms these findings. Unfortunately, not much has changed since 2004. With the average of 3.03 among all respondents, neither students nor professionals can recall study materials regarding methods and processes of preparing the cash flow statement according to International Financial Accounting Standards (see Table 6).

Table 6. Question two: "Study materials about methods of preparing the cash flow statement."

Q2 You can easily recall your study materials about methods of preparing the cash flow statement.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**7**	**17%**	**4**	**11%**	**11**	**14%**
2. Tend to agree	**13**	**32%**	**5**	**14%**	**18**	**24%**
3. I doubt; it is difficult to answer	6	15%	6	18%	12	16%
4. Tend do not agree	**10**	**24%**	**18**	**51%**	**28**	**37%**
5. Do not agree	**5**	**12%**	**2**	**6%**	**7**	**9%**
Total results	41	100%	35	100%	76	100%
Likert Scales Average	**2.83**	**100%**	**3.26**	**100%**	**3.03**	**100%**

Source: created by the author.

As we can see from Table 6, there are some inconsistencies in the survey results. Group One remembers materials about methods of preparing the cash flow statement (forty-nine percent of all respondents). At the same time Group Two remembers much less than Group One (twenty-five percent of all respondents), which is alarming because Group Two is comprised of students in an MA program.

It seems that both groups do not remember their study materials about the methods of preparing the cash flow statement very well. It is possible that in Group One (practicing accountants) individuals tend to remember more because they return to the study materials on a daily basis to avoid difficulties in classification of cash flow items while at work.

It is possible that individuals from Group Two remember less because they do not work with the cash flow statement on a regular basis and/or because not enough time is dedicated to the cash flow topic in universities.

It is evident that individuals in Group One possess a better understanding of the meaning and importance of the cash flow statement in the life of an enterprise, most likely due to their work experience. But for Group Two, since they are not yet working very closely with cash flow reporting, the full meaning of the report remains unclear, and therefore, during their studies at the university their attention must be intentionally directed to the subject by faculty.

Based on the survey, it is of particular importance that the level at which cash flow reporting is covered in academia be improved. The survey results of Group Two should be similar, if not better; than Group One's, so that the academic level would be on par with the professional level. If that were the case, students would be better prepared for what is demanded of them in practice. To some extent, students of audit programs represent the future of the Estonian financial reporting industry.

Respondents in both groups could not recall the year of the study materials related to the accounting treatments of the cash flow, with the average grade of 3.92 (see Table 7).

Table 7. Question three: "You can specify the year of publication of your last study materials about the cash flow statement."

Q3 You can specify the year of publication of your last study materials about the cash flow statement.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	4	10%	3	9%	7	9%
2. Tend to agree	1	2%	1	3%	2	3%
3. I doubt; it is difficult to answer	13	32%	1	3%	14	18%
4. Tend do not agree	11	27%	9	25%	20	27%
5. Do not agree	12	29%	21	60%	33	43%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	**3.63**	**100%**	**4.26**	**100%**	**3.92**	**100%**

Source: created by the author.

The author proposes that no such methodological materials are currently available in the Estonian or Russian languages in Estonia. Maybe this is related to the limited budgets of the Estonian Accounting Standards Board whose function is to issue accounting guidelines explaining and specifying the accounting acts, including translations, guidance, and interpretation of International Financial Reporting Standard, in particular the IFRS (IAS 7) vs GAAP (SFAS 95,Codification ASC 230) Statement of Cash Flows. The Estonian Accounting Standard Board does not review accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus as to the appropriate

accounting treatment. For example, the Estonian Accounting Standard Board would not provide a detailed explanation of what "current assets" are, which assets should be treated as such, and which assets should not. As a consequence of this policy, accountants turn to auditors to develop interpretations, but, as we know, auditors' opinions of accounting treatments can vary from conservative to aggressive, which can result in diverse interpretations and usage of financial information. This in turn can lead investors to make faulty decisions affecting the financial future of companies.

Also, as we can see from the survey, Estonia lacks professionals with Association of Chartered Certified Accountants (ACCA) certification, the global body for professional accountants (see Table 8).

Table 8. Question twenty-two: Participants' Educational Levels.

Q22-Education	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
College	3	7%	1	3%	4	5%
Graduate	24	59%	31	89%	55	72%
Postgraduate	12	29%	0	0%	12	16%
ACCA	**0**	**0%**	**0**	**0%**	**0**	**0%**
Other	2	5%	3	9%	5	7%
Total results	41	100%	35	100%	76	100%

Source: created by the author.

Such a result can lead to the conclusion that the Estonian Accounting Board has not developed a pre-qualification program for accountants, including a syllabus and textbooks, covering the subjects listed in the IFRS, including cash flow reporting. Also it could mean that there are no private sector training providers offering quality training and support in preparing professionals of a high standard. ACCA qualification is not available for study in Estonia and, as a consequence, this makes Estonian accountants less competitive on the international job market. It is a sad fact that Estonian financial reporting is weak in comparison with other EU countries.

Another interesting fact revealed by the research is that knowledge of the history of the cash flow statement would be beneficial for developing an understanding of cash flow principles.

As we can see from the table below fifty-one percent of respondents in Group One and forty percent of respondents in Group Two "totally agree" or "tend to agree" with this statement. It is important to mention that the proportion of respondents who answered "I doubt it; difficult to answer" was twenty-four percent in Group One and thirty-four percent in Group Two (the student group). This fact underscores that today's educational programs do not draw enough attention to the importance and meaning of the cash flow statement as well as its historical development. As a result, this prevents students from understanding the main terms and concepts of the cash flow statement, which negatively impacts upon the training of future professionals. Therefore, additional training in this area should be included in all study programs around the country (see Table 9).

Table 9. Knowledge about the history of the cash flow statement.

Q8 Knowledge about the history of the cash flow statement and it development would be beneficial for the understanding the essence of the cash flow principles.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**12**	**29%**	**3**	**9%**	**15**	**20%**
2. Tend to agree	**9**	**22%**	**11**	**31%**	**20**	**26%**
3. I doubt; it is difficult to answer	*10*	*24%*	*12*	*34%*	*22*	*29%*
4. Tend do not agree	9	23%	8	23%	17	22%
5. Do not agree	1	2%	1	3%	2	3%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	2.46	100%	2.80	100%	2.62	100%

Source: created by the author.

In addition to the above-mentioned questions, the survey included questions that confirm that there are many other areas in the accountant's treatment of cash flows which are unclear and require additional explanation and clarification. This confirms that accountants consider cash flow statements relatively tricky to create, highly time-consuming and one of the most difficult statements in international financial reporting for accountants to prepare (see Tables 10 and Table 11).

Table 10. Question twelve: "Cash flow statement is tricky to create and is highly time-consuming."

Q12 Cash flow statement is tricky to create and are highly time consuming.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	8	20%	1	3%	9	12%
2. Tend to agree	10	24%	13	37%	23	30%
3. I doubt; it is difficult to answer	*2*	*5%*	*7*	*20%*	*9*	*12%*
4. Tend do not agree	**17**	**41%**	**14**	**40%**	**31**	**41%**
5. Do not agree	**4**	**10%**	**0**	**0%**	**4**	**5%**
Total results	41	100%	35	100%	76	100%
Likert Scales Average	2.98	100%	2.97	100%	2.97	100%

Source: created by the author.

Table 11. Question fourteen: "The cash flow statement is the easiest and most straightforward statement in the financial reporting of a company."

Q14 Cash flow statement is the easiest and the clearest statement in the financial reporting of the company.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	5	12%	1	3%	6	8%
2. Tend to agree	8	20%	7	20%	15	19%
3. I doubt; it is difficult to answer	*5*	*12%*	*11*	*31%*	*16*	*21%*
4. Tend do not agree	**13**	**32%**	**14**	**40%**	**27**	**36%**
5. Do not agree	**10**	**24%**	**2**	**6%**	**12**	**16%**
Total results	41	100%	35	100%	76	100%
Likert Scales Average	3.37	100%	3.26	100%	3.32	100%

Source: created by the author.

The answers to questions twelve and fourteen present interesting findings. On the one hand, individuals do not think that the cash flow statement is tricky to create and highly time-consuming, but on the other hand they do not think that the cash flow statement is the easiest and most straightforward statement in the financial reporting of a company.

This indicates that respondents may be poorly informed about the essence of the cash flow statement, and that there are difficulties with the preparation of the report. Clearly, the cash flow statement is required by accounting regulations, but it is often prepared carelessly, dismissing its seriousness, and accountants do not devote enough attention to it. The major differences between Question 12 and Question 14 are as follows: the cash flow statement is tricky to create and is highly time-consuming (five percent in Group One and twenty percent in Group Two), Question 14: the cash flow statement is the easiest and most straightforward statement in the financial reporting of a company (twelve percent in Group One and thirty one percent in Group Two). The data shows that students in Group Two, in general, are not fully aware of issues surrounding the cash flow statement, probably due to a lack of in-depth knowledge about it.

The Likert scales average of the responses for both of these questions gives a score of 3.32 (see Table 11), which underlines that issues with cash terminology and classification exist among practicing accountants as well as students. To address this problem, the author suggests that additional explanations should be issued for accountants by the Estonian Accounting Board as guidelines for the preparation of the cash flow statement in accordance with international accounting standards.

3.4 Cash flow statement analysis and management reporting

The importance of the cash flow statement has been described above, but it is worth recalling George W. Gallinger's thoughts on the issue in his book Liquidity Analysis and Management: that cash flow information may bring to light problems which lead to business failure, help identify overvalued or undervalued companies, and improve assessments of the quality of earnings (Gallinger, 1991). Moreover, based on the example of the W. T. Grant Company, the reader can see that lack of cash flow analysis can lead to insufficient cash flow and, as a result, bring a business to bankruptcy. Therefore, if management evaluated and more closely tracked cash flow information, thereby promptly recognizing cash flow problems, the company that ended in bankruptcy might still be in operation today. Unfortunately, the grant W. T. Grant company case is not unique. Across diverse literature sources the author located similar cases in

the Penn Central Corporation (Glasberg, 1989), the Laker Airways case (Lee, 1982), the Bowmar Instrument case (Harland and Platt, 1999) and many others.

Due to the importance of management's correct evaluation of the cash flow statement, the author included in the research survey a series of questions intended to evaluate the manager's assessment of a company's cash flow. Most of the respondents agreed that the cash flow statement is the preferred tool to evaluate company performance. The average for both groups is 2.49 (see Table 12). Both groups agreed (fifty-nine percent of Group One and sixty percent of Group Two) that the cash flow statement is the preferred tool to evaluate a company's performance, but Group One (comprising working accountants) was much more emphatic (twenty-two percent "totally agree" as opposed to eleven percent for Group Two). The answer "I doubt it; difficult to answer" was also notably less frequently selected in Group One. Both findings again underline that the academic level in Estonia does not meet professional requirements and needs.

Table 12. Question sixteen: "The cash flow statement is the preferred tool to evaluate company performance."

Q16 Cash flow statement is the preferable tool to evaluate the company performance.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**9**	**22%**	**4**	**11%**	**13**	**17%**
2. Tend to agree	**15**	**37%**	**17**	**49%**	**32**	**42%**
3. I doubt; it is difficult to answer	7	16%	8	23%	15	20%
4. Tend do not agree	8	20%	5	14%	13	17%
5. Do not agree	2	5%	1	3%	3	4%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	**2.49**	**100%**	**2.49**	**100%**	**2.49**	**100%**

Source: created by the author.

Unfortunately, the results for the remainder of the questions are alarming. Fifty-nine percent of working accountants "totally agree" and "tend to agree" that their company does not use the cash flow statement more than once per year. Twenty-two percent of students reported the same

experience, and forty-three percent are in doubt, having difficulty answering the question (see Table 13). This question might be not very relevant for Group Two, since they are not involved in cash flow statement preparation and analysis professionally, which explains why forty-three percent of respondents in Group Two answered "I doubt it; difficult to answer" and why the other responses are rather evenly distributed between the "tend to agree" and "tend not to agree" categories. Group One is very specific on this question and confirms the low priority placed on the cash flow statement in professional practice, at fifty-nine percent reporting preparing the statement once per year or less.

Table 13. Question fifteen: "Your Company does not use the cash flow statement more than once per year."

Q15 Your Company does not use the cash flow statement more than once in year.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**9**	**22%**	**4**	**11%**	**13**	**17%**
2. Tend to agree	**15**	**37%**	**4**	**11%**	**19**	**25%**
3. I doubt; it is difficult to answer	*1*	*2%*	*15*	*43%*	*16*	*21%*
4. Tend do not agree	7	17%	4	11%	11	14%
5. Do not agree	9	22%	8	24%	17	23%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	2.80	100%	3.23	100%	3.00	100%

Source: created by the author.

These results are similar to findings made by Lee and Tweedie in their series of studies published in 1975, 1977 and 1985. They found that only 16 percent of respondents indicated liquidity data to be the most significant part of the annual financial statement (Lee and Tweedie, 1975). A subsequent study revealed that 43 percent of respondents did not read the fund statement (Lee and Tweedie, 1977). And 64 percent of respondents in a study conducted in 1981 appeared to have no understanding of the content of the fund statement (Lee and Tweedie, 1982). The present results are a sign of an underestimation of the importance of cash flow reporting and

analysis among firm management which could lead to a series of unexpected bankruptcies in the future.

Such a pessimistic prognosis can indeed be realized one day, as this research reveals that managers do not adequately consider cash flow analysis in their evaluation of company performance. Sixty-three percent of respondents in the accountant group and forty percent in the student group confirm this statement (see Table 14). Clearly professionals are by far more specific; two percent vs thirty-four percent fall in the "I doubt it; difficult to answer" category. And confirming the low priority placed on the cash flow statement by company management, sixty-three percent do not analyze it regularly. This is clearly a shortsighted approach to managing a company's financial health.

Table 14. Question eighteen: "Company management requests cash flow statement analysis on a regular basis."

Q18 The company management requests the cash flow statement analysis on the regular basis.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	9	22%	2	6%	11	14%
2. Tend to agree	5	13%	7	20%	12	16%
3. I doubt; it is difficult to answer	*1*	*2%*	*12*	*34%*	*13*	*17%*
4. Tend do not agree	**10**	**24%**	**6**	**17%**	**16**	**21%**
5. Do not agree	**16**	**39%**	**8**	**23%**	**24**	**32%**
Total results	41	100%	35	100%	76	100%
Likert Scales Average	3.46	100%	3.31	100%	3.39	100%

Source: created by the author.

Although most of the respondents — seventy percent of Group One and seventy-five percent of Group Two (see Table 15) — recognize that cash flow analysis focuses on how solvent, liquid, and viable a company is, they often fail to bring to management's attention the importance of its analysis.

Working every day with the cash, accountants understand that a profit and loss statement says nothing about principal payments business make to the bank. Company obligations must be kept

in balance and changes to terms of cash flow must be controlled and appropriate actions must be taken in a timely manner. Companies could have reasonably good profits, but the amount of money it pays to the bank every month could be putting it out of business. Cash flow statements tell the reader where operations spent money: increased in inventory, extended credit to customers, purchase of capital equipment, growing capacity and so on. All of these issues won't show up in profit and loss statement. Therefore, accountants must understand that controlling cash inflows and outflows is the key part of running a successful company. Understanding the cash flow statement enables managers to improve the decision-making process about business operations and plan for the further development of the company.

Table 15. Question nineteen: "Cash flow analysis focuses on company solvency, liquidity and viability."

Q19. Cash flow analysis focuses on company solvency, liquidity and viability	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**12**	**29%**	**9**	**26%**	**21**	**28%**
2. Tend to agree	**17**	**41%**	**17**	**49%**	**34**	**45%**
3. I doubt; it is difficult to answer	4	10%	1	3%	5	7%
4. Tend do not agree	5	12%	8	23%	13	17%
5. Do not agree	3	7%	0	0%	3	4%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	2.27	100%	2.23	100%	2.25	100%

Source: created by the author.

Unfortunately, not all directors and managers are aware of this issue. This may be the case because many directors have yet to change company culture from a model where financial reporting is delegated to chief accountants to a model where directors must ensure the true and fair preparation of the financial statements and the sound financial management of the company (World Bank, 2004). In particular, this would help ensure that financial reporting requirements are met in small and medium-sized enterprises.

For small businesses cash is king. Everybody understands that, but it appears that most of the managers in Estonia fail to realize that the cash flow statement is one of the three most important financial statements. The concept of cash flow is different from the concept of profit or net income, and the business owner should think of each in different terms and analyze each from a different perspective. There is a variety of financial ratios at the business owner´s disposal which are invaluable tools enabling the measurement of net profit and cash flow. Cash flow analysis uses ratios that focus on cash flow and how solvent, liquid, and viable a company is. Below are the most common cash flow ratios with their calculations and proper interpretation, which can be found in a wide range of literature, such as Figlewicz and Zeller, 1991; Gombola and Ketz, 1983; Plewa and Friedlob, 1995; Beaver, 1966, 1968; Mulford & Comiskey, 2005; Helfert, 2001; Bodie et al., 2004; Altman and Spivack, 1983; Joseph D., 2000; Ohloson 1980, Lybby 1975; Bragg 2002, 2003; Berry, 2015.

1. Operating Cash Flow Ratio

The operating cash flow ratio is one of the most important cash flow ratios. Cash flow is an indication of how money moves into and out of the company and of the ability to oversee payables. Operating cash flow relates to cash flows that a company accrues from operations down to its current debt. It measures how liquid a firm is in the short run, since it relates to current debt and cash flows from operations.

$$\text{Operating Cash Flows Ratio} = \frac{\text{Cash flows from operations}}{\text{Current Liabilities}} \quad (1)$$

The "Cash flows from operations" figure is taken from the statement of cash flows, and the "Current liabilities" figure is taken from the balance sheet. If a company's operating cash flow ration is less than 1.0, the company is not generating enough cash to pay off its short-term debt, which is a serious situation. It is possible that the firm may not be able to continue to operate. Therefore, a ratio of more than 1 is always preferable.

2. Price/Cash Flow Ratio

The price to cash flow ratio is often considered a better indicator of a company's value than the price to earnings ratio. It is a highly useful ratio for company management to be familiar with, particularly if the company is publicly traded. It compares the company's share price to the cash flow that the company generates on a per share basis. The Price/Cash flow ratio is:

$$\text{Price/Cash flow ratio} = \frac{\text{Share price}}{\text{Operating cash flow per share}} \quad (2)$$

Share price is comprised of the closing price of a stock on a particular day, and operating cash flow per share is taken from the statement of cash flows. A high P/CF ratio, in comparison to the industry average, indicates that a specific firm is trading at a high price, but is not generating enough cash flow to support that multiple. Smaller price ratios are generally preferred, as they may reveal a firm that is generating ample cash flows that are not yet reflected by the current share price. Holding all factors constant, from an investment perspective a smaller P/CF is preferable to a larger multiple (Investopedia, 2015).

3. Cash Flow Margin Ratio

The Cash Flow Margin ratio is an important ratio because it reflects the relationship between cash generated from operations with respect to sales. Companies need cash to pay dividends, suppliers, and service debt, as well as invest in new capital assets. Cash is just as important as profit to a business. The Cash Flow Margin ratio measures the ability of a firm to translate sales into cash. The calculation is:

$$\text{Cash Flow Margin Ratio} = \frac{\text{Cash flow from operations}}{\text{Net sales}} = \% \quad (3)$$

The numerator of the equation comes from the firm's cash flow statement. The denominator comes from the income statement. The larger the percentage is the better.

4. Cash Flow from Operations/Average Total Liabilities

The "Cash flow from operations / Average total liabilities" ratio is similar to the commonly-used "total debt / total assets" ratio. Both measure the solvency of a company or its ability to pay its debts and stay afloat. The former is superior, as it measures this ability over a period of time rather than providing a snapshot of a point in time. The ratio is calculated as follows:

$$\frac{\text{Cash flow from operations}}{\text{Average total liabilities}} = \% \tag{4}$$

"Cash flow from operations" is taken from the cash flow statement, and the "Average total liabilities" represents an average of total liabilities taken from several time periods as shown on the balance sheets. The higher the ratio the better, demonstrating a firm's financial flexibility and ability to pay its debts.

There are many other ratios which could be used for cash flow reporting, with data collected straight from the cash flow statement or taken from all three financial statements. Examples of these possibilities were offered by W. Beaver in 1966 and E. Altman in 1977.

But managers are required to remember that cash flow ratios are based on cash flow from the operations of a company. Cash flow ratios provide a clearer picture of a company's performance, highlighting an organization's cash flow strengths and weaknesses (Carslaw and Mills, 1991). Cash flow ratios could be a better measure of firm performance than financial ratios derived from income statements and balance sheets because cash flows from operations are a main component of the ratios and exclude the effect of non-cash flow items, such as depreciation expenses and gains or losses on the sale of operating assets (Kelly and O'Connor, 1997; Plewa and Friedlob, 2002). Profit reported on income statements may constitute a subjective distortion because it includes those items (Giacomino and Mielke, 1993; Hoggett, Edwards and Medlin, 2003). It has been argued that traditional ratios from income statements and balance sheets, such as the "liquidity ratio" and "quick ratio", may not provide as comprehensive a measure of a company's ability to retire its debts because current assets, including accounts receivable and inventory, may not be convertible to cash.

There is ample evidence that cash flow ratios contain additional information which is not contained in the accrual-based figures and ratios (Gombola and Ketz, 1983; Salmi, Virtanen and Yli-Olli, 1990; Yli-Olli and Virtanen, 1989). Gombola and Ketz (1983) found that cash flow ratios fulfill a separate and distinct purpose not captured by any other ratio group from accrual-based financial statements, such as profitability ratios. The cash flow ratios are advocated because they can provide users with deeper insight into the financial performance of a company (Dennis, 1994).

Cash flow ratios may be categorized into two groups: cash flow sufficiency and cash flow return ratios (Figlewicz and Zeller, 1991; Gombola and Ketz, 1983; Plewa and Friedlob, 1995):

1. Cash flow sufficiency ratios

Cash flow sufficiency ratios are aimed at assessing a company's relative ability to generate sufficient cash to meet its cash flow needs. All ratios indicate whether a company's cash flows are sufficient for the payment of debt obligations, acquisition of assets and payment of dividends. These ratios are cash flow adequacy, debt coverage, repayment of borrowing, and dividend payment ratios.

1.1 Cash flow adequacy ratio

The cash flow adequacy ratio is an attempt to assess an entity's ability to produce sufficient operating cash flows to cover its main liquidity demands, specifically the payment of debt, the acquisition of assets, and the payment of dividends.

$$\text{Cash flow adequacy} = \frac{\text{Cash flow from operations}}{\text{Repayment of borrowings} + \text{Assets acquired} + \text{Dividends paid}} \qquad (5)$$

Cash flow adequacy is the primary measure of cash sufficiency. This performance ratio should have a value of one or above. A ratio of one or above indicates that the company's operations produce sufficient cash to meet necessary business obligations. A ratio of less than one indicates potential liquidity problems.

1.2 Debt coverage ratio

The debt coverage ratio reflects the ability of a company to generate cash flow from operating activities to pay its long-term debt commitments.

$$\text{Debt coverage ratio} = \frac{\text{Total debt}}{\text{Cash flow from operations}} \tag{6}$$

The debt coverage ratio measures a firm's ability to maintain its current debt levels. This is why a higher ratio is always more favorable than a lower ratio. A higher ratio indicates that there is more income available to cover debt. If a company had a ratio of one, it would mean that the company's net operating profits equal its debt obligations. In other words, the company would be generating just enough revenue to pay for its debt. A ratio of less than one indicates that a company does not generate enough operating profits to cover its debt and must draw upon its savings. In general, companies with a higher ratio tend to have more cash and are better able to meet their debt obligations in a timely manner.

1.3 Repayment of borrowings ratio

This ratio reflects the ability of a firm to generate cash from operating activities for the purpose of covering long-term debt commitments in the current year.

$$\text{Repayment of borrowings ratio} = \frac{\text{Repayment of borrowings}}{\text{Cash flow from operations}} \tag{7}$$

1.4 Dividend payment ratio

The dividend payment ratio represents the ability of a company to generate cash from operating activities to cover dividend commitments to both ordinary and preference shareholders. If the ratio is greater than one, it indicates that the company used a smaller portion of its cash from operating activities on dividend payments.

$$\text{Dividend payment ratio} = \frac{\text{Dividends paid}}{\text{Cash flow from operations}} \tag{8}$$

Since investors want to see a steady stream of sustainable dividends from a company, the dividend payment ratio is a valuable metric. However, whether the ratio follows a consistent trend is usually more important than whether the ratio is high or low.

Since it falls to companies to declare dividends and increase the ratio over a period of one year, a single high ratio does not carry much weight. Investors are primarily concerned about sustainable trends. Conversely, a downward trend of payouts by a company is a red flag to investors. For example, if a company's ratio has fallen a percentage point each year for the last five years, such a trend could indicate that the company can no longer afford to pay such high dividends. This could be a strong indicator of poor operating performance.

1.5 Reinvestment ratio

The reinvestment ratio represents the ability of a company to generate cash from operating activities for the purpose of covering asset acquisition payments.

$$\text{Reinvestment ratio} = \frac{\text{Payment for property,plant and equipment}}{\text{Cash flow from operations}} \tag{9}$$

This ratio indicates the degree to which net income is absorbed (reinvested, accumulated) by a business. A cash reinvestment ratio of greater than 1:1 (100%) indicates that more cash is being used by the business than being acquired.

2. Cash flow returns ratios

This group of ratios is sometimes referred to as “efficiency ratios”. They reflect the ability of a company to generate operating cash flows. Cash flow efficiency ratios are used to assess the relationship between items in the income statement and balance sheet with cash flow from operations as disclosed in the cash flow statement. These ratios include the following.

2.1 Cash flow on revenues ratio

This ratio is intended to show the ability of a company to turn revenue into cash. The higher the ratio, the better that ability is. This ratio draws upon information provided by the statement of cash flow and the income statement. It is computed by dividing cash from operating activities by revenues.

$$\text{Cash flow to revenues} = \frac{\text{Cash flow from operations}}{\text{Revenues}} \tag{10}$$

2.2 Cash flow to net income ratio

This ratio is sometimes called the "operating index". It compares a company's profit with its cash flow from operations and attempts to provide an index of the cash-generating productivity of operations. It is calculated as cash flows from operations divided by profit after income tax. The higher the operating index ratio is, the stronger company performance typically is.

$$\text{Operations index} = \frac{\text{Cash flow from operations}}{\text{Profit}} \tag{11}$$

2.3 Cash flow return on assets ratio

This ratio attempts to measure the company's return on assets in terms of the cash flow generated from operations.

$$\text{Cash flow return on assets} = \frac{\text{Cash flow from operations + Income tax paid + Interest paid}}{\text{Average total assets}} \tag{12}$$

Investors use the cash flow return on assets ratio to estimate the quality of a company's earnings. The cash flow return on assets ratio is similar to the return on total assets ratio, which measures how efficiently a business uses its assets to create a return or income. The cash flows to average assets ratio shows investors how efficiently the business is using its assets to collect cash from customers. The higher the ratio, the more efficient the business is.

The cash flows to total assets ratio has nothing to do with income or profitability. It only reflects the efficiency of cash flows. A business with an extremely high cash flow to average assets ratio could still report a loss on the income statement for the year.

2.4 Cash flow return on stockholders' equity ratio

This ratio reflects the ability of a company to generate a sufficient cash return for stockholders.

$$\text{Cash flow return on stockholders' equity ratio} = \frac{\text{Cash flow from operations}}{\text{Average stockholders' equity}} \quad (13)$$

Investors need to monitor the rate-of-return on "trapped equity" for decision-making purposes. If the returns on equity are acceptable, then the investor should probably continue to hold the investment. If the returns are not acceptable, this indicates that the investment requires attention, e.g., reduced expenses, or the investment should be sold and the proceeds re-invested in higher performing stocks, for example.

2.5 Cash flow per share ratio

This ratio indicates the operating cash flow that can be assigned to each common share. It is defined as the cash available to common stockholders divided by the weighted average number of common shares outstanding.

$$\text{Cash flow per share ratio} = \frac{\text{Cash flow from operations} - \text{Preferred Dividends}}{\text{Average number of shares of common stock outstanding}} \quad (14)$$

Cash flow per share represents the net cash a firm produces on a per share basis (Investopedia, 2015). Because the cash flow per share takes into consideration a company's ability to generate cash, some analysts regard it as a more accurate measure of a company's financial situation than the earnings per share metric.

These ratios are recommended for their potential to aid users of financial statements in the decision-making process. For example, the cash flow on revenue ratio assists credit managers in analyzing the credit risk of a firm. In general, the higher the ratio, the better the credit risk

(Dennis, 1994). In addition, it has been suggested that the cash flow on revenue ratio and the debt coverage ratio be considered in analytical procedures to detect financial statement fraud (Fleming, 2004).

Each manager has the right to decide which ratios to use, but it is definitely a "must" that they be used in everyday operations. It is clear that cash flow analysis must be used, in conjunction with other financial information, on a monthly basis to evaluate company performance. Results of the research exploring this hypothesis is below (see Table 16).

Table 16. Question seventeen: "The cash flow statement should normally be used in conjunction with the profit and loss accounts and balance sheet when assessing future cash flows."

Q17 Cash flow statement should normally be used in conjunction with the profit and loss accounts and balance sheet when making an assessment of the future cash flows.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**15**	**37%**	**13**	**37%**	**28**	**37%**
2. Tend to agree	**19**	**46%**	**15**	**43%**	**34**	**45%**
3. I doubt; it is difficult to answer	*3*	*7%*	*6*	*17%*	*9*	*12%*
4. Tend do not agree	2	5%	1	3%	3	4%
5. Do not agree	2	5%	0	0%	2	3%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	**1.95**	**100%**	**1.86**	**100%**	**1.91**	**100%**

Source: created by the author.

This question is quite practical, perhaps explaining the relatively high percentage of "I doubt it; difficult to answer" responses among Group Two participants. Most respondents are in agreement with the statement. Eighty-three percent of respondents in Group One and eighty percent of respondents in Group Two selected "totally agree" and "tend to agree", which results in an average of 1.91 points for both groups (see Table 16). It demonstrates that there is hope that accountants who possess knowledge of the importance of this analysis will bring it to the attention of company management and encourage them to perform the analysis. It will be

advantageous for accounting authorities and academic institutions to improve accounting education by increasing the amount of attention devoted in study programs to the cash flow statement, its methodology, history and analysis.

3.5 Cash flow statement in the predicting the future cash flows

It is of interest that most of the respondents are in agreement that, from a financial analysis perspective; the cash flow statement is a crucial source of information. The statement provides an early warning system indicating potential future problems. In Group One sixty-three percent of respondents and in Group Two eighty-six percent of respondents hold this opinion, with an average figure of 2.05 (see Table 17). There are a relatively high proportion of responses in the "I do not know" category, fifteen percent in Group One and eleven percent in Group Two, which may indicate that this segment of respondents has not previously worked with the cash flow statement.

Table 17. Question nine: "From a finance point-of-view, a cash flow statement is crucial. It's an early warning system for future problems."

Q9 From a finance point of view, a cash flow statement is crucial. It's an early warning system for future problems.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**14**	**34%**	**14**	**40%**	**28**	**37%**
2. Tend to agree	**12**	**29%**	**16**	**46%**	**28**	**37%**
3. I doubt; it is difficult to answer	*6*	*15%*	*4*	*11%*	*10*	*13%*
4. Tend do not agree	7	17%	1	3%	8	11%
5. Do not agree	2	5%	0	0%	2	3%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	**2.29**	**100%**	**1.77**	**100%**	**2.05**	**100%**

Source: created by the author.

At the same time, an alarming proportion of respondents agree that the cash flow statement has no use in analyzing and predicting a company's financial health and future cash inflows. As

shown in Table 18, eighty-three percent agree with this statement in Group One and eighty percent in Group Two.

Based on this statement it can be concluded that professionals in Estonia still underestimate the importance of the cash flow report and, possibly, do not yet fully grasp its usefulness.

Table 18. Question twenty: "The cash flow statement has no use in predicting and analyzing a company's financial health and future cash inflows."

Q20 Cash flow statement has no use in predicting and analyzing company's financial health and future cash inflows.	Group 1		Group 2		Total response	
	No.	%	No.	%	No.	%
1. Totally agree	**15**	**37%**	**13**	**37%**	**28**	**37%**
2. Tend to agree	**19**	**46%**	**15**	**43%**	**34**	**45%**
3. I doubt; it is difficult to answer	3	7%	6	17%	9	11%
4. Tend do not agree	2	5%	1	3%	3	4%
5. Do not agree	2	5%	0	0%	2	3%
Total results	41	100%	35	100%	76	100%
Likert Scales Average	1.95	100%	1.86	100%	1.91	100%

Source: created by the author.

The significance of cash flow prediction is supported by the setters of accounting standards. Both the Financial Accounting Standard Board (FASB) and the International Accounting Standard Committee (IASC) provide a set of fundamental guidelines for preparing and presenting financial statements. The objective of reporting financial statements is to provide financial information for users to better predict the amount, timing and uncertainty of the future cash flow of a company.

"*The primary objective of accounting data is to…provide information to help present and potential investors, creditors and others assess the amounts, timing and uncertainty of prospective net cash inflows to the related enterprise*" (FASB, 1978, paragraph 37).

"…*Information about economic resources controlled by the enterprise and its capacity in the past to modify these resources is useful in predicting the ability of the enterprise to generate cash and cash equivalents in the future*" (IASC, 1995, p. 44-45).

These statements suggest that accounting information from financial statements is useful in predicting the future cash flows of a company. Consequently, the usefulness of accounting information for their ability to predict future cash flows has been investigated by a number of researchers (Ashton, 1974; Neill et al., 1991).

Cash flow accounting can avoid uncertain accounting allocations present in the accrual system, produce more objective financial information and provide users with fundamental and critical financial data (Lee, 1993) because cash flow accounting does not involve allocation and matching problems. Payments and receipts are recorded when the transactions are made. As a result, it is understood that cash flow information is less vulnerable to manipulation than accrual information (Ali, 1994; Sharma, 2001). For similar reasons, cash flow is seen as the superior instrument for predictive purposes, particularly for predicting future cash flows (Charitou and Ketz, 1991; Lee, 1993).

The requirements of cash flow statements are based on the assumption that past cash flows are useful for assessing future cash flows. The cash flow statement not only supplements the information provided in other financial statements, but also presents financial information in a different format (Charitou and Ketz, 1991). Accounting standard setters claim that the cash flow statement, used in conjunction with other financial statements like the balance sheet and the income statement, provide the following benefits:

"*It presents an insight into the changes in net assets of a company, financial structure (including its liquidity and solvency). It shows the ability of a company to generate cash and cash equivalents. It can be used in developing models to assess and compare the present value of the future cash flows of different companies. It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting policies in accrual accounting for the same transaction and events. It is usually used as a sign of the amount, timing and certainty of future cash flow. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices*" (IASC 1995, p. 115).

Cash flow information is considered very useful for investors and creditors (Hodgson and Stevenson-Clarke, 2000). Many advocates argue that the main benefit of cash flows to users is that the information overcomes many of the limitations associated with the accrual accounting

measurement procedures manifested in traditional financial statements (Lee, 1993). In addition, because cash flows constitute the most objective metric of a company's capacity to consume and command resources, and because cash portrays the best measure of liquidity, they are not contaminated by measurement problems and more directly facilitate the prediction of future dividends and credit or loan payments (Lancaster, Stevens and Jennings, 1998; Wertheim and Robinson, 1993).

Further research is needed into the usefulness of cash flows versus accrual accounting. Although a number of studies have been conducted on the topic of the usefulness of cash flows and accrual accounting data, such as Contemporary Accounting Research published by Penman in 2001, the results of those studies were inconsistent and inconclusive. A contradiction between cash- and accrual-based data has not been resolved. The fact that debates among academics are ongoing should not deter Estonian educational institutions from explaining and emphasizing the importance of the cash flow statement and its analysis in their training programs for accountants and auditors. This development will increase not only the overall quality of financial reporting in the country and improve the international reputation of Estonian accounting and auditing, but also provide comparable and transparent financial information to the benefit of investors, managers and other users of financial information.

CONCLUSION

The accountants and accounting students who took part in this research demonstrated that the preparation of the cash flow statement is a problematic issue in Estonia.

The purpose of the research is to assess how often data from the cash flow statement is used to evaluate, forecast and manage everyday business operations; which methods are currently employed to prepare the cash flow statement; and how deep the understanding of the usefulness of the cash flow statement and its analysis is in contemporary Estonian accounting and management practices.

The first part of the thesis provides an introductory overview of the literature. The cash flow statement and its methodology have not been analyzed in detail in the Estonian context. Most of the existing research has been conducted abroad in countries such as the USA, the UK and Australia. Compared to the research conducted on the topic in those countries, very little research has been carried out on the topic in Estonia. This thesis contributes to the existing literature by providing an overview of the current situation in Estonia regarding the preparation and analysis of cash flow reporting by the accountants and managers of Estonian companies.

In order to answer the research questions the author employed an explanatory research method. A self-completed questionnaire was conducted. One set of closed questions was distributed to participants via a self-administered online research tool and another set was distributed in hard copy.

The results indicate that both methods of reporting cash flows — direct and indirect — are widely used. However, it is of interest that the direct method of preparation is more common in Estonia than in the USA. Unfortunately, due to time limitations, it is beyond the scope of this project to determine why the direct method is so widely used in Estonia, and the observation requires further research.

The findings of the survey establish that in Estonia accountants need to receive updates about changes to international accounting standards in the local languages. The data gathered as part of the research confirm that little progress has been made in this area since 2004 and that the enforcement of accounting standards for both public interest entities and small and medium-sized enterprises has been and remains a challenge for Estonia. The author recommends that Financial Supervisory Authorities pursue the dual objective of oversight and enforcement of accounting standards. In addition, policy makers have to stay informed about ongoing changes to International Financial Reporting Standards in order to fulfill the increased demand for improved international corporate reporting in all areas of accounting, especially in the area of cash flow reporting.

The research establishes that accountants in Estonia have a strong demand for additional professional guidance with explanations provided in the Estonian and Russian languages. Ninety-one percent of all respondents confirm the existence of this need. An examination of the available literature underlines that there is currently inadequate methodological materials in either the Estonian or Russian languages available to practitioners within Estonia.

Research findings confirm that Estonian accounting education and training have not kept pace with the needs of the rapidly developing Estonian economy. Although the accounting curricula at leading Estonian universities does adhere to internationally recognized standards, students indicated that a proportion of the faculty members have not undertaken sufficient continuing education training to stay current with recent developments, nor have they adapted the curricula to meet contemporary challenges.

The research reveals that individuals often fail to remember their study materials about cash flow preparation methodology. Nevertheless it is worth mentioning that practicing professionals have better recall of their study materials than the students. This indicates that current academic programs dedicate insufficient attention to the importance of cash flow and its role in financial reporting. Consequently, in the working lives of these professionals, little emphasis is placed on the cash flow statement, particularly in comparison with other EU countries.

Based on the survey, it is particularly vital that the academic level of cash flow reporting be improved. The survey results of the students should be similar to that of the practicing

professionals, if not better; so that the academic level would be approximately on par with the professional level. If that were the case, students would be better prepared for what is demanded of them in practice. To some extent, students of audit programs represent the future of the Estonian financial reporting industry.

To the regret of the author, the research revealed that ACCA qualification is not available in Estonia. This qualification program, as well as general knowledge about the history of the cash flow statement and its development, is not as pervasive as it should be in the accounting society of Estonia. As a consequence, this makes Estonian accountants less competitive in the international job market and Estonian financial reporting weak in comparison with other EU countries. The lack of extensive accounting programs and literature on international accounting and reporting makes cash flow statements tricky for accountants to create, highly time-consuming, and one of the least straightforward statements in financial reporting.

Due to the importance of management's correct evaluation of the cash flow statement, the author includes in the research survey a series of questions intended to evaluate the manager's assessment of a company's cash flow. The findings show that Estonian companies typically do not use the cash flow statement more than once per year and that most managers underestimate the importance of cash flow reporting and analysis to firm management. This research reveals that managers do not typically perform cash flow analysis as part of their evaluation of company performance. Although most of the respondents recognize that cash flow analysis focuses on how solvent, liquid and viable a company is; they still fail to bring this area of financial analysis to the attention of management.

Working with cash on a daily basis, accountants understand that the profit and loss statement says nothing about the payments toward principle that businesses make to banks. Companies can have reasonably good profits, but high monthly payables to the financial industry can bleed profits out of a business. Cash flow statements inform the interested party where operations spent money: increases in inventory, extensions of credit to customers, purchases of capital equipment, growing capacity and so on. All of these issues will not appear in a profit and loss statement. Therefore, accountants must understand that controlling cash inflows and outflows is the key part of running a successful company. Understanding the cash flow statement

enables managers to make more informed decisions about business operations and sound plans for the further development of the company.

Unfortunately, not all directors and managers are aware of the importance of the cash flow statement. This may be the case because many directors have yet to change the company culture from one where financial reporting is delegated to chief accountants to a model where directors must ensure the true and fair preparation of the financial statements and the prudent financial management of the company. For small businesses, cash is king. Everybody understands that, but it appears that most of the managers in Estonia fail to realize that the cash flow statement is one of the three most important financial statements.

There is ample evidence that cash flow ratios contain additional information which is not contained in the accrual-based figures and more common financial ratios. Cash flow ratios fulfill a separate and distinct purpose not met by any other ratio group from accrual-based financial statements, such as profitability ratios. The cash flow ratios are advocated because they can provide users with deeper insight into the financial performance of a company. Fortunately, most of the respondents to the survey understand this, which creates hope that those accountants who do possess knowledge about the importance of this analysis will bring it to the attention of management and assist them in performing it. All the same, accounting authorities and academic institutions will improve accounting education by increasing the amount of attention devoted in study programs to the cash flow statement, its methodology, history and analysis.

Unfortunately the sample size of the quantitative section of the research is relatively small (seventy-six respondents) and limits the possibilities for statistical analysis, which means that the subjects may not be representative of the broader population of accountants in Estonia.

Suggestions for future research include: investigation of the reasons for the high usage of the direct method of cash flow preparation in Estonia; examination of the usefulness of submitting both methods of cash flow preparation (direct and indirect) simultaneously; assessment of the quality of the available methodological material on cash flow statement preparation and its analysis in the Estonian and Russian languages; and comparison of Estonian study programs in accounting with their counterparts in other EU countries and their competitiveness on the international market in the area of financial reporting.

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APPENDICES

Appendix 1. Questionnaire one in English language

Dear Participant,

My name is Olga Davis and I am a graduate student at Tallinn University of Technology. For my final project, I am examining the current situation in Estonia in the area of the cash flow reporting. Because you are participating in an education program for accountants, I invite you to take part in this research study by completing the attached surveys.

The following questionnaire will require approximately 10-15 minutes to complete. There is no compensation for responding, nor is there any known risk. In order to ensure that all information remains confidential, please do not include your name. Copies of the project will be provided to a Tallinn University of Technology professor and to the TUT Department of Accountancy. If you choose to participate in this project, please answer all questions as honestly as possible and return the completed questionnaires promptly. Participation is strictly voluntary, and you may refuse to participate at any time.

Thank you for taking the time to assist in this educational endeavor. The data collected will provide useful information for the cash flow reporting study. If you would like a summary copy of this study, please complete and detach the Request for Information Form and return it to me in a separate email to the address olggadavis@gmail.com. The completion and return of the questionnaire will indicate your willingness to participate in this study. If you require additional information or have any questions, please contact me at the number listed below.

If you are not satisfied with the manner in which this study is being conducted, you may report (anonymously if you so choose) any complaints to the TUT school of economics and Business Administration:

Tallinn University of Technology
Visiting address: Akadeemia tee 3
12618 Tallinn
Estonia Phone (+372) 6204006

Sincerely,
Olga Davis

For each statement, please write the number that best reflects your opinion.

1	2	3	4	5
Totally agree	Tend to agree	Difficult to answer	Tend to disagree	Do not agree

1. ___In your opinion, would you agree, that there is a need for a new methodology for the preparation the cash flow statement.
2. ___Would you agree that Accountants in Estonia need constant updates about the changes of the international accounting standards in convenient language.
3. ___You can easily recall your study materials about methods of preparing the cash flow statement.
4. ___You can specify the year of publication of your last study materials about the cash flow statement.
5. ___You can recall the name of your Accounting teacher and his professional qualification.
6. ___It is easy to find information about methodology of the preparation of the cash flow statement in your language.
7. ___Estonian institutions should pay more attention to methodology of preparation of the cash flow statements during lecturing for the professional qualification in accounting and business management in all levels.
8. ___ Additional methodological materials with the explanation in Estonian and Russian languages will be beneficial for any accountant and manager in Estonia, especially in

comparison to IFRS and interpretation of main definitions and terminology in both languages.

9. __Knowledge about the history of the cash flow statement and it development would be beneficial for the understanding the essence of the cash flow principles.
10. __You have a convenient and clear source, which keeps you up to date with all changes regarding the cash flow statement reporting and analysis.
11. ___From a finance point of view, a cash flow statement is crucial. It's an early warning system for future problems.
12. ___Cash flow statement should be reported on weekly basis.
13. ___The Company's manager requires/use the accounting data for the cash flow monthly.
14. ___Cash flow statements are tricky to create and are highly time consuming.
15. ___It is easy to find information about methodology of the cash flow statement.
16. ___Cash flow statement is the easiest and the clearest statement in the financial reporting of the company.
17. ___Your Company does not use the cash flow statement more than once in year.
18. ___Cash flow statement is the preferable tool to evaluate the company performance.
19. ___Cash flow statement should normally be used in conjunction with the profit and loss accounts and balance sheet when making an assessment of the future cash flows.
20. ___The company management request the cash flow statement analysis on the regular basis.
21. ___ Cash flow analysis focuses on how solvent, liquid, and viable the company is.
22. __Cash flow analysis is prepared along with the cash flow statement on monthly basis.
23. ___Cash flow statement has no use in predicting and analyzing company's financial health and future cash inflows.
24. ___You have no issue with the classification of the cash flow items.
25. ___You have no issue with the understanding of the cash flow content.
26. ___You can easy explain the underlying theory of the cash flow statement.
27. ___You have no questions about the cash flow statement and methods of it preparation.

28. ___The data for the cash flow statement is easy founded in the accounting data.
29. ___Cash is the amount of money your company expects to receive over a given period of time.
30. ___Cash flow statement is created based on the accrual basis.
31. ___The operating cash flow ratio (net cash flow from operating activities/current liabilities) is a measure of how well current liabilities are covered by the cash flow generated from a company's operations. It can estimate a company's liquidity in the short term.
32. ___During the preparation of the cash flow statement for accountant it is easy to define differences between operating, financing and investing activities of the firm.
33. ___Material transactions not resulting in movements of cash or cash equivalents of the reporting entity should be disclosed in the notes to the cash flow statement.
34. ___Would you agree that cash equivalents are any short-term (highly liquid) investments which are readily convertible (up to three months) into known amounts of cash without notice and should be included in operating activities.
35. ___Would you agree that receipts from sales or disposal of fixed assets and receipts from repayment of loans for these assets should be included in the financing activities.
36. ___Would you agree that it is difficult to determine the term current assets, and that additional explanation in classification is needed to be provided by the authority or by the research establishments.
37. ___Would you agree that cash, used to buy new equipment or short-term assets such as marketable securities, reported under financing activities.
38. ___You can easily classify in which of three activities (operating, financing or investing) the paid dividend and interest for the loans must be reported.

Respondent's data:

What method do you use in preparing the cash flow statement? ____direct method ___indirect method

Education: __college, __graduate, __postgraduate, __ACCA.

Year of graduation ____ Country of graduation _____

Specialization: __bookkeeping, __accounting, __finance, __engineering, __social since, ___other.

Age: __ 18-25, __26-35, __ 36-45, __46-55, __over 55

Languages used in:

- Everyday life ___ Eng., ___Est, ___Rus., ___ Fin, ___Other (please specify)_____.
- Work environment ___ Eng., ___Est, ___Rus., ___ Fin, ___Other (please specify)_____.

Appendix 2. Questionnaire two in Estonian language

Käesolev küsitlus viiakse läbi Tallinna Tehnikaülikooli magistritöö koostamise raames.

Küsitluse eesmärk on selgitada välja probleemid, mis võivad tekkida (on tekkinud) seoses rahavoogude aruande koostamise ja analüüsiga. Me tahame ka uurida, kas praegu kasutatavad metoodilised materjalid ja nende tase (kvaliteet) rahuldavad Eesti raamatupidajat ja juhti.

Küsimustik on koostatud kooskõlas Eesti Andmekaitse Inspektsiooniga, koosneb 20 küsimusest ning võtab vastamiseks aega orienteeruvalt 14 minutit.

Teie osalemine käesolevas uuringus aitab muuta rahavoogude koostamiseks vajalikud metoodilised materjalid Eesti raamatupidajatele kättesaadavamaks nende emakeeles. Täname osalemise eest!

ANKEET

Palun kirjutage iga väite juures asuvasse lünka number, mis kajastab Teie seisukohta kõige adekvaatsemalt. Seejuures lähtuge järgmisest skaalast:

1	2	3	4	5
Täiesti nõus	Pigem nõus	Raske vastata	Pigem ei ole nõus	Ei ole nõus

1. ___Eesti raamatupidajatel on vaja regulaarselt saada infot rahvusvaheliste finantsaruandluse standardite muutuste kohta.
2. ___Te mäletate hästi, mis oli kirjutatud Teie kasutatud õppevahendis rahavoogude aruande koostamise metoodika kohta.
3. ___Te mäletate, millal oli välja antud õppevahend, mille järgi õppisite koostama rahavoogude aruannet.
4. ___Te mäletate oma raamatupidamise lektori (õppejõu) nime ja kvalifikatsiooni (kutsetaset, teaduskraadi, ametinimetust jms).
5. ___Teil on üpris lihtne leida informatsiooni rahavoogude koostamise aruandest Teie emakeeles.
6. ___Eesti kõrgkoolid peavad pöörama rohkem tähelepanu rahavoogude aruande koostamise metoodika õpetamisele ärikorralduse ja majandusarvestuse (raamatupidamise) erialal.
7. ___ Täiendavad metoodilised materjalid koos eesti- ja venekeelsete selgitustega on kasulikud nii raamatupidajale kui ka juhile Eestis, eriti finantsaruandluse rahvusvaheliste standardite tõlgendamise ning peamiste mõistete ja terminoloogia ühtlustamiseks mõlemas keeles.
8. ___Teadmised rahavoogude aruande koostamise ajaloost aitaksid paremini mõista rahavoogude aruande koostamise alusprintsiipe.
9. ___Rahavoogude aruandel on tähtis finantsfunktsioon. See on tegelikult tulevaste probleemide varajase teavitamise süsteem.
10. ___Rahavoogude aruannet on vaja koostada iga nädal.
11. ___Teie ettevõtte/asutuse juht nõuab/kasutab rahavoogude aruande infot üks kord kuus.

12. ___Rahavoogude aruandeid on raske koostada ja koostamine võtab palju aega.

13. ___Informatsiooni rahavoogude aruande koostamise metoodika kohta on lihtne leida.

14. ___Rahavoogude aruanne on kõige lihtsam ja läbipaistvam aruanne ettevõtte kõigi finantsaruannete hulgas.

15. ___Teie ettevõte ei kasuta rahavoogude aruannet sagedamini kui üks kord aastas.

16. ___Rahavoogude aruanne on hea viis ettevõtte edukuse hindamiseks.

17. ___Tulevaste rahavoogude hindamiseks peab rahavoogude aruannet kasutama koos kasumiaruande ja bilansiga.

18. ___Teie ettevõtte/asutuse juhtkond nõuab rahavoogude aruande regulaarset analüüsi.

19. ___ Rahavoogude analüüs näitab, kui maksevõimeline, likviidne ja elujõuline on ettevõte.

20. ___Rahavoogude aruande abil ei saa ennustada ja analüüsida raha tulevast laekumist.

Ankeedi täitja andmed

Te kasutate rahavoogude aruande koostamiseks (märkida risti või linnukesega) ___ otsemeetodit ___ kaudmeetodit

Haridus: __ gümnaasium, __ bakalaureus __ magister __ACCA _ muu.

Lõpetamise aasta ____ Lõpetamise riik _____

Spetsialiseerumine: __ raamatupidamine, __ rahandus, __ energeetika, __ sotsiaalteaduskond, ___ muu.

Vanus: __ 18-25, __26-35, __ 36-45, __ 46-55, __üle 55

Te kasutate tavaelus järgmist keelt: ___ inglise., ___ eesti, _ vene, ___ soome, ___ muu (täpsustage) _____.

Teie töökeele(ed) on: ___ inglise., ___ eesti, _ vene, ___ soome, ___ muu (täpsustage) _____.

Appendix 3. Questionnaire three in Russian language

Данное исследование проводится в рамках магистерской диссертации для студента в Таллиннском техническом университете (г. Таллинн, Эстония).

Целью исследования является выявления трудностей, которые могут возникнуть (уже возникли) в связи с составлением и анализом отчета о движении денежных средств. Мы хотим также выяснить, есть ли необходимость в дополнительных методических и учебных материалах относительно этого отчета.

Ваше участие в исследовании поможет сделать для бухгалтеров методические материалы более доступными на их родном языке. Спасибо за участие!

АНКЕТА

Для каждого утверждения, пожалуйста, напишите номер, который лучше всего отражает ваше мнение.

1	2	3	4	5
Полностью согласен	Скорее согласен	Сомневаюсь, затрудняюсь ответить	Скорее не согласен	Не согласен

1. ___ Бухгалтерам в Эстонии необходимы постоянная информация об изменениях в международных стандартах бухгалтерского учета на удобном языке.
2. ___ Вы можете легко вспомнить ваши учебные материалы о методах подготовки отчета о движении денежных.
3. ___ Вы можете указать год издания вашего последнего учебного пособия об отчете о движении денежных средств.

4. ___ Вы можете вспомнить имя вашего преподавателя по бухгалтерскому учету и его профессиональную квалификацию (должность, ученую степень итд.).

5. ___ Вам легко найти методическую информацию по составлению отчета о движении денежных средств на вашем родном языке.

6. ___ Эстонские учебные учреждения должны уделять больше внимания методике составления отчета о движении денежных средств при подготовке бухгалтеров и руководителей всех уровней.

7. ___ Дополнительные методические материалы с разъяснением на эстонском и русском языках будут полезны для любого бухгалтера и руководителя в Эстонии, особенно для сравнения с МСФО и интерпретации основных определений и терминологии на обоих языках.

8. ___ Знание истории отчета о движении денежных средств и его развития полезно для понимания сущности принципов отчета.

9. ___ С финансовой точки зрения, отчет о движении денежных средств имеет решающее значение. Это система раннего предупреждения о грядущих проблемах.

10. ___ В Вашей компании/учреждении отчет о движении денежных средств должен быть представлен на еженедельной основе.

11. ___ Руководителю компании/учреждения требуются данные бухгалтерского учета для составления отчета о движении денежных средств ежемесячно.

12. ___ Отчет о движении денежных средств – один из сложнейших отчетов, для его составления требуется очень много времени.

13. ___ Вам легко найти информацию о методике составления отчета о движении денежных средств.

14. ___ Отчет о движении денежных средств – самый простой и ясный отчет в финансовой отчетности компании/учреждения.

15. ___ Ваша компания/учреждение не использует отчет о движении денежных средств больше, чем один раз в год.

16. ___ Отчет о движении денежных средств является наиболее предпочтительным инструментом для оценки эффективности работы компании/учреждения.

17. ___ Делая оценку будущих денежных потоков, отчет о движении денежных средств обычно следует использовать в сочетании с балансом и отчетом о прибылях и убытках.

18. ___ Руководство компании/учреждения регулярно запрашивает анализ отчета о движении денежных средств.

19. ___ Анализ движения денежных средств сосредоточен на том, чтобы оценить жизнеспособность компании/учреждения.

20. ___ Отчет о движении денежных средств не имеет значения при прогнозировании и анализе будущих поступлений денежных средств.

Данные отвечающего

Вы используете при подготовке отчета о движении денежных средств ____ метод прямого начисления, ____ косвенный метод.

Образование: __среднее, __бакалавр, __магистр, __ACCA.

Год окончания ____ Страна выпуска _____

Специализация: __бухучет, __финансы, __инженер, ___другое.

Возраст: __ 18-25, __26-35, __ 36-45, __46-55, __более 55

Языки, используемые в:

- Повседневной жизни ___ Англ. ___Эст, ___Рус, ___ Фин., ___другие (пожалуйста, укажите) _____...

- Рабочей среде ___ Англ., ___Эст. ___Рус, ___ Фин. ___другие (пожалуйста, укажите) _____.

Appendix 4. Details of tabulation analysis Group 1

Details of tabulation analysis Group 1																
	Totally agree		Tend to agree		I do not know		Tend do not agree		Do not agree		Total					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	Average	Standard	Median	IQR
Q1	15	37%	19	46%	0	0%	5	12%	2	5%	41	100%	2.02	8.35	5.00	13.00
Q2	7	17%	13	32%	6	15%	10	24%	5	12%	41	100%	2.83	3.27	7.00	4.00
Q3	4	10%	1	2%	13	32%	11	27%	12	29%	41	100%	3.63	5.36	11.00	8.00
Q4	12	29%	9	22%	6	15%	4	10%	10	24%	41	100%	2.78	3.19	9.00	4.00
Q5	10	24%	17	41%	4	10%	7	17%	3	8%	41	100%	2.41	5.63	7.00	6.00
Q6	20	49%	14	34%	5	12%	2	5%	0	0%	41	100%	1.73	8.50	5.00	12.00
Q7	22	54%	15	37%	2	5%	2	5%	0	0%	41	100%	1.61	9.76	2.00	13.00
Q8	12	29%	9	22%	10	24%	9	22%	1	2%	41	100%	2.46	4.21	9.00	1.00
Q9	14	34%	12	29%	6	15%	7	17%	2	5%	41	100%	2.29	4.82	7.00	6.00
Q10	6	15%	5	12%	1	2%	9	22%	20	49%	41	100%	3.78	7.19	6.00	4.00
Q11	6	15%	9	22%	2	5%	9	22%	15	37%	41	100%	3.44	4.76	9.00	3.00
Q12	8	20%	10	24%	2	5%	17	41%	4	10%	41	100%	2.98	5.85	8.00	6.00
Q13	3	7%	12	29%	10	24%	10	24%	6	15%	41	100%	3.1	3.63	10.00	4.00
Q14	5	12%	8	20%	5	12%	13	32%	10	24%	41	100%	3.37	3.42	8.00	5.00
Q15	9	22%	15	37%	1	2%	7	17%	9	22%	41	100%	2.8	5.02	9.00	2.00
Q16	9	22%	15	37%	7	17%	8	20%	2	5%	41	100%	2.49	4.66	8.00	2.00
Q17	15	37%	19	46%	3	7%	2	5%	2	5%	41	100%	1.95	8.17	3.00	13.00
Q18	9	22%	5	12%	1	2%	10	24%	16	39%	41	100%	3.46	5.63	9.00	5.00
Q19	12	29%	17	41%	4	10%	5	12%	3	7%	41	100%	2.27	6.06	5.00	8.00
Q20	15	37%	19	46%	3	7%	2	5%	2	5%	41	100%	1.95	8.17	3.00	13.00

Source: created by the author.

Appendix 5. Details of tabulation analysis Group 2

Details of tabulation analysis Group 2																
	Totally agree		Tend to agree		I do not know		Tend do not agree		Do not agree		Total					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	Average	Standard Devi	Median	IQR
Q1	17	49%	11	31%	4	11%	3	9%	0	0%	35	100%	1.8	6.89	4	8
Q2	4	11%	5	14%	6	17%	18	51%	2	6%	35	100%	3.26	6.32	5	2
Q3	3	9%	1	3%	1	3%	9	26%	21	60%	35	100%	4.26	8.49	3	8
Q4	15	43%	16	46%	1	3%	3	9%	0	0%	35	100%	1.77	7.84	3	14
Q5	8	23%	15	43%	9	26%	2	6%	1	3%	35	100%	2.23	5.7	8	7
Q6	13	37%	15	43%	7	20%	0	0%	0	0%	35	100%	1.83	7.04	7	13
Q7	20	57%	12	34%	3	9%	0	0%	0	0%	35	100%	1.51	8.77	3	12
Q8	3	9%	11	31%	12	34%	8	23%	1	3%	35	100%	2.8	4.85	8	8
Q9	14	40%	16	46%	4	11%	1	3%	0	0%	35	100%	1.77	7.48	4	13
Q10	1	3%	3	9%	8	23%	17	49%	6	17%	35	100%	3.69	6.2	6	5
Q11	5	14%	5	14%	15	43%	3	9%	7	20%	35	100%	3.06	4.69	5	2
Q12	1	3%	13	37%	7	20%	14	40%	0	0%	35	100%	2.97	6.52	7	12
Q13	2	6%	12	34%	9	26%	10	29%	2	6%	35	100%	2.94	4.69	9	8
Q14	1	3%	7	20%	11	31%	14	40%	2	6%	35	100%	3.26	5.61	7	9
Q15	4	11%	4	11%	15	43%	4	11%	8	23%	35	100%	3.23	4.8	4	4
Q16	4	11%	17	49%	8	23%	5	14%	1	3%	35	100%	2.49	6.12	5	4
Q17	13	37%	15	43%	6	17%	1	3%	0	0%	35	100%	1.86	6.82	6	12
Q18	2	6%	7	20%	12	34%	6	17%	8	23%	35	100%	3.31	3.61	7	2
Q19	9	26%	17	49%	1	3%	8	23%	0	0%	35	100%	2.23	6.89	8	8
Q20	13	37%	15	43%	6	17%	1	3%	0	0%	35	100%	1.86	6.82	6	12

Source: created by the author.

Appendix 6. Likert Scales Average

Likert Scales Average for all participants in both groups.			
	Group 1	Group 2	Total Average
Q1	2.02	1.8	1.91
Q2	2.83	3.26	3.04
Q3	3.63	4.26	3.95
Q4	2.78	1.77	2.28
Q5	2.41	2.23	2.32
Q6	1.73	1.83	1.78
Q7	1.61	1.51	1.56
Q8	2.46	2.8	2.63
Q9	2.29	1.77	2.03
Q10	3.78	3.69	3.74
Q11	3.44	3.06	3.25
Q12	2.98	2.97	2.98
Q13	3.1	2.94	3.02
Q14	3.37	3.26	3.32
Q15	2.8	3.23	3.02
Q16	2.49	2.49	2.49
Q17	1.95	1.86	1.91
Q18	3.46	3.31	3.39
Q19	2.27	2.23	2.25
Q20	1.95	1.86	1.91

Source: created by the author.