

TESTING THE IMPACT OF THE STATEMENT OF CASH FLOWS ON THE COMPANIES FROM MUREȘ COUNTY VERSUS THE NEED OF CASH FLOW INFORMATION REQUIRED BY OTHER ENTITIES IN THE SAME AREA

Irina PĂȘCAN, Ramona NEAG and Ildiko VIRAG¹
Petru Maior University of Tg. Mureș, Romania

ABSTRACT

In Romania, the presentation of Statement of cash flows is compulsory only for certain entities, while cash flow information represents an essential component of analyze. Our study seeks to identify the need of cash flow information in the entities form Mureș County, according to the specificity of the economic, social and financial environment. The main objectives of our study are: (i) to identify in what extent the companies from county Mureș feel the need for information provide by Statement of cash flows; (ii) to identify, in direct relation with the size of the company, the real user of information provided by Statement of cash flows; (iii) to identify the purpose of cash flow information in the financial management of the entity and who are the main users of this information; (iv) to identify which entity should prepare the Statement of cash flows, for a complete set of financial statements. We hypothesize that, although an entity should prepare a cash flow statement just if it is compulsory, the need for this kind of information will determine the potential users to require information based on a cash-flow analysis. To collect data for our survey, we sent out questionnaires to the companies from Mureș County.

✦ *Statement of cash flows, Cash flow information, Users of financial information, Usefulness of cash flow information*

¹ Corresponding author: Irina PĂȘCAN; e-mail address pascanirina@yahoo.com.

INTRODUCTION

The users of financial information in Romania, respectively the demand for such information, must be analyzed taking into account the particularities of economic, social, politic and financial environment. The general approach for all users and their real needs is not a useful behavior for analyzing the impact of financial information provided by financial statements.

In Romania, the disclosure of financial information is highly regulated and the presentation of Statement of cash flows is compulsory for those entities that fulfill two from three criteria (turnover 7.300.000 Euros, total assets 3.650.000 Euros and number of employees 50). The Romanian accounting regulation states that for other entities the presentation of Statement of cash flows is not compulsory. It appears, however, that in countries where financial disclosure is highly regulated and dominated by tax regime, and where capital markets are small in size, voluntarily disclosure by private firms is very rare (Street & Gray, 2002).

The Statement of cash flows is a financial statement, providing information about a company's cash inflows and outflows for a period of time. Cash flow information represent an essential component of analyze which wants to be useful at the entity level. But, which is the place of the information provided by Statement of cash flows in the entity? The usefulness for this information is linked to the recognition of his qualities or is it an obligation that must be fulfilled? Where can we find the usefulness of cash flow information: at the level of statements of financial information or in the sort terms analysis of inflows and outflows in the entity? Which are the real users of cash flow information? The relevance of the Statement of cash flows is highly recognized theoretically. Does the Romanian accounting practice validate this recognition? The present study takes this line of inquiry and examines compulsory or voluntary disclosure of cash flow reporting in Romania, county Mureş.

1. LITERATURE REVIEW

Many studies in accounting have provided evidence on the relationship between accounting earnings and various definitions of cash flows in order to assess the information content of cash flow (i.e. Bowen *et al.*, 1986, Bowen *et al.*, 1987; Arnold *et al.*, 1991), while others have suggested a number of decision contexts in which cash flow information is important (i.e. Charitou & Ketz, 1991; Jones *et al.*, 1995; Arnold *et al.*, 1991; Chan *et al.*, 1991). All of these studies have been realized in countries with cash flow disclosure requirements (USA, UK and Australia) and most of data sets consist of either published financial statements or responds to questionnaires addressed to users of financial information.

Hence, Jones *et al.* (1995) presents a study accomplished in Australia, with the objective of assessing the usefulness of Statement of cash flows on the decision-making process. The research methodology involved sending questionnaires to a total of 210 people with experience in financial reporting, representatives of companies listed on stock exchange in Australia. The respondents considered that the Statement of cash flows is more easily understood and interpreted and there are no difficulties in defining the used terminology, ensuring a high degree of comparability between entities; it also meets the informational needs of a large number of stakeholders, both internal and external users.

Respondents appreciate the usefulness of this financial statement in making decisions, especially related to liquidity and solvency assessment, measurement of company's performance, the value of Statement of cash flows being emphasized by its flexibility and general character. The authors concluded that the Statement of cash flows represents "an important and dynamic development in company financial reporting".

Stewart Jones and Janek Ratnatunga (1997) continue investigating the usefulness of Statement of cash flows, having as starting point the study conducted in 1995 (Jones *et al.*, 1995). The results of this study show that three independent variables are strongly correlated with the importance given to the Statement of cash flows: the size of the entity, the focus of a firm's financial reporting responsibility and the incidence of companies preparing the Statement of cash flows prior to the moment it became compulsory.

If the Statement of cash flows possesses a high level of decision-making relevance, the firm size hypothesis literature would predict that larger firms would rate the relevance of the Statement of cash flows more highly than smaller firms. Accounting information has a relatively more critical role to play in numerous aspects of the internal and external decision-making environment of larger firms. The study revealed that the highest ratings of the decision usefulness of the Statement of cash flows was registered by respondent companies that had either banks or non-bank lenders as the primary focus of their financial reporting responsibility. Also, the results revealed that the strongest support for the Statement of cash flows came from firms who had already been preparing the Statement of cash flows prior to the requirements of Australian accounting regulations.

In the same period, in countries with no or little cash flow disclosure requirements, evidence on the usefulness of cash flow information was very limited. In Greece, Charitou and Venieris (1992) have reported on the usefulness of cash flow in predicting business failures.

Recent studies realized in countries where there are requirements on the publication of the Statement of cash flows (Kwok, 2002) present the Statement of cash flows utility in making decisions and test whether the decision making process is influenced by information provided by the two different methods of presentation of these statement. Research methodology involved the examination of the financial statements of two entities (one from New Zealand and the second from South Africa), applying for loan, by 20 people, resident in Hong Kong, with the quality of commercial loan officers, financial analysts, academics and auditors. The company from New Zealand used the direct method of presenting the Statement of cash flows, while the company from South Africa used the indirect method. The results of this study show that the most used report is represented by the Notes to financial statements, followed by the Statement of financial position, segmental reports and the Statement of cash flows. The conclusions of the paper show that, although the respondents used the cash flow information in making decisions, this information was not obtained from the Statement of cash flows, but from other financial reports. The possible reasons why the subjects relied on the Statement of financial position for cash flow information could be: the Statement of financial position has been around for decades while the presentation of the Statement of cash flows was introduced more recently; the lack of training in using this statement, evidenced by the fact that none of the subjects noticed the difference between the direct and the indirect method of the Statement of cash flows presentation.

An important number of studies presented arguments in favor of the importance of information provided by the Statement of cash flows in measuring the financial performance of entities, compared with information based on result (Brown *et al.*, 1986; Kelly & O'Connor, 1997; Dechow *et al.*, 1998; Rai, 2003; Larrain & Yogo, 2008).

The empirical research made by Charitou and Ketz (1991) indicate the fact that there exists a strong association between the various cash flow components included in the Statement of cash flows (cash flows from operating, financing, and investing activities) and the market value of the firm.

A similar study was realized in Greece (Kousenidis *et al.*, 2006) with the purpose to review the willingness of Greek companies to voluntary disclose cash flow information. The empirical research was conducted on a sample of 97 Greek firms listed in the Athens Stock Exchange by examining the relation between cash flows and other measures of profitability for year 1994 when IAS no. 7 was endorsed. The results of the study showed that despite the fact that cash flows are more informative than an accruals definition of profits, in deciding about financial policy issues Greek companies show an increased preference to funds flows defined in terms of working capital. The publication of a Statement of cash flows may reveal

that many listed companies in Greece are not as robust as the Statement of financial position and the Statement of comprehensive income potentially indicates. Thus, the main conclusion of the paper is that publication of the Statement of cash flows in Greece should become mandatory.

In Romania, although a large number of papers emphasize the importance of cash flow information in financial analysis of entities, still no studies have been conducted to test empirically the need for such information in the economic environment in Romania.

An article written in 2004 (Neag, 2004) emphasizes the need and importance of cash flow information in making decisions, both for managers and for external users, concluding that "professional reform must continue" in reporting these types of information.

2. RESEARCH HYPOTHESES

The four main objectives pursued by our study are: (i) to identify in what extent the companies from county Mureş feel the need for information provided by Statement of cash flows; (ii) to identify, in direct relation with the size of the company, the real user of information provided by Statement of cash flows; (iii) to identify the purpose of cash flow information in the financial management of the entity and the main users of this information; (iv) to identify which entities should prepare the Statement of cash flows as part of the complete set of financial statements.

- A. To identify which companies from county Mureş feel the need for information provide by Statement of cash flows

In order to evaluate this objective we tried to connect the value of turnover with the cash flows generated in the exploitation activities. The classification of the entities related to the turnover was made taking into account the criteria for micro entities (turnover less than 1.000.000 Euros – the project at European level) and the criteria for those entities that must establish Statement of cash flows imposed by Romanian accounting regulation (turnover more than 7.300.000 Euros). We believe that entities with a turnover more than 7.300.000 Euros prepare the complete set of financial statements. Consequently, we believe that the utility of information provided by Statement of cash flows is recognised by all entities that prepare this financial statement. Accordingly, we formulate the following hypotheses:

HA1: Entities with turnover more than 7.300.000 Euros prepare Statement of cash flows

HA2: The utility of information provided in Statement of cash flows is very well understood by the preparers

B. To identify, in direct relation with the size of the company, the real users of information provided by Statement of cash flows

Based on certain preliminary signals from the business milieu, we believed that the users of financial statements are represented primarily of banks and other financial institutions and state. For entities with turnover more than 7.300.000 Euros, the investors may have a significant position. If so, we tried to connect the most relevant information provided by each financial statement with the users, for those entities with a complete set of financial information. We believed that where investors are the most important users of financial statements, the Statement of cash flows has a significant role for them, so they are using this information in taking decisions.

For this reason:

HB1: The users of financial statements consist primarily of banks and other financial institution and state

HB2: The investors represent an important category of users for companies with turnover more than 7.300.000 Euros

HB3: The relevance of Statement of cash flows is recognised primarily by the banks and secondly by the investors

C. To identify the purpose of cash flow information in the financial management of the entity and the main users of this information

Based on certain preliminary information regarding the entities that prepare Statement of cash flows, we hoped that also entities with turnover less than 7.300.000 Euros would respond to our questionnaire. Because they do not establish this particular statement, we anticipated the need of cash flow information at this level too and we believed that this need is related to the banks, as an important user of financial information. Where the management uses this kind of information they are related with the decision process.

HC1: Regardless the size of entities, the need for cash flow information is evident for all entities

HC2: The bank is considered the most important user for such information because it is the bank which demands this kind of information

HC3: The management is also an important user even if the entities do not realize it

D. To identify which entities should prepare the Statement of cash flows as part of the complete set of financial statements

We believe that a hierarchy is wished for entities. This must be done for presentation of financial statement.

HDI: The entities will certify the need for a classification of entities and for a separate disclosure of financial information using financial statements

3. RESEARCH METHODOLOGY

In order to verify the general hypotheses stated above, we proposed to do an empirical research and the research method chosen by us was based on questionnaire. The questionnaire, written in Romanian, contains a number of 14 questions, most of which are closed questions, some of them offering the possibility to personalize the responses if the respondent considers it necessary.

The survey was realized by self-questionnaires (see Appendix). The questionnaire, accompanied by a cover letter, was delivered directly to the respondent, sent by fax or e-mail to the selected entities and, in most cases, filled by employees from the financial-accounting department with the agreement of the managers.

Our research seeks to test the impact of the Statement of Cash Flows on the companies from Mureş County versus the need of cash flow information required by other entities in the same area. So, our sample included, in the first stage, all the entities from Mureş County. When we started our research, in Mureş County there were a number of 17.636 companies, grouped in the table below according to the locality in which their head office is.

Table 1. Segmentation of companies from Mureş County

THE LOCALITY	FREQUENCIES	PERCENTAGES
Târgu Mureş	9121	51,72%
Reghin	1632	9,25%
Sighişoara	1215	6,89%
Târnăveni	610	3,46%
Luduş	480	2,72%
Sovata	357	2,02%
Sângeorgiu de Mureş	320	1,81%
Sâncraiu de Mureş	180	1,02%
Cristeşti	158	0,90%
Iernut	133	0,75%
Ungheni	126	0,71%
Sântana de Mureş	109	0,61%
Other localities with less than 100	3195	18,14%
TOTAL	17.636	100,00%

**Testing the impact of the statement of cash flows on the companies from Mureş county
versus the need of cash flow information required by other entities in the same area**

Given the objectives pursued by this research, we considered relevant for the study the companies with a turnover of at least 35.000 Euros. Thus, a sample was constructed consisting of 100 entities with turnover of over 35.000 Euros, taking into account the locality segmentation of the companies from Mureş County, as follows:

Table 2. Sample construction

THE LOCALITY	FREQUENCIES	PERCENTAGES
Târgu Mureş	52	51,72%
Reghin	9	9,25%
Sighișoara	7	6,89%
Târnăveni	3	3,46%
Luduş	3	2,72%
Sovata	2	2,02%
Sângeorgiu de Mureş	2	1,81%
Sâncraiu de Mureş	1	1,02%
Cristeşti	1	0,90%
Iernut	1	0,75%
Ungheni	1	0,71%
Sântana de Mureş	1	0,61%
Other localities with less than 100	17	18,14%
TOTAL	100	100,00%

Based on sample size and number of entities studied in each locality above mentioned, from a list of unordered companies with turnover of over 35.000 Euros, by applying the sampling step of 175, there were chosen the 100 companies that we included in the study.

Twenty-two questionnaires were returned, achieving a response rate of 24%. The respondents asked for complete confidentiality with respect to the identification of their company.

4. RESULTS AND FINDINGS

We analyse the research results according to the four objectives stated above.

- A. To identify which companies from county Mureş feel the need for information provide by Statement of cash flows

Based on the stated objectives, we considered necessary to differentiate the respondents. The criteria chosen for this purpose was the turnover recorded in the year 2007, because the size of this indicator shows the volume of operating activity and is related to the intensity of the cash flows from the same activity.

As a result, the entities surveyed were grouped as follows:

Table 3. Classification of entities by turnover value

TURNOVER	FREQUENCIES	PERCENTAGES
35.000 – 1.000.000 Euros	8	33,33%
1.000.001 – 7.300.000 Euros	6	25,00%
over 7.300.000 Euros	10	41,67%
TOTAL	24	100,00%

In Table 4, regarding the set of financial statements can be observed that only 37.50% of entities with a turnover of less than 1.000.000 Euros prepare the complete set of financial statements. For entities with a turnover between 1.000.000 and 7.3000.000 Euros, only 33.33% prepared the complete set of financial statements. Companies with turnover of over 7.300.000 Euros prepare and present the complete set of financial situations.

The usefulness of information from financial statements to users

Considering the fact that the financial statements are prepared for the users of financial accounting information, both internal and external, and that these statements represent a basis of the decision-making process for each category of users, it is crucial to understand the point of view of those who prepare the financial statements on these issues.

In order to analyse the behaviour of the studied entities towards the relevance of information provided by financial statements for its users, we have studied: the structure of the prepared set of financial statements and the users they are dedicated to.

However, there remains the question about the usefulness of financial and accounting information for the entities, presented in the two financial statements prepared in addition to the minimum set. Starting from this idea, our study focuses on the attitude of preparers of the financial statements towards the Statement of cash flows and the impact of cash flow information on companies.

Table 4. The financial statements prepared by the studied entities

Financial statements	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover Exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages
Statement of financial position	8	100,00%	6	100,00%	10	100,00%	24	100,00%
Statement of comprehensive income	8	100,00%	6	100,00%	10	100,00%	24	100,00%
Notes to the financial statements	8	100,00%	6	100,00%	10	100,00%	24	100,00%
Statement of cash flows	3	37,50%	3	50,00%	10	100,00%	16	66,67%
Statement of changes in equity	3	37,50%	2	33,33%	10	100,00%	15	62,50%

Table 5. The preparers' opinion on the usefulness of the Statement of cash flows

Burden versus usefulness	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages
Burden	0	0,00%	0	0,00%	1	11,11%	1	7,69%
Usefulness	2	100,00%	2	100,00%	8	88,89%	12	92,31%

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Perception of the usefulness of the Statement of cash flows by entities from Mureş County

The first step in analyzing the reason of preparing a financial statement is to understand the way it is viewed and what the entity that presents it wants to express through the information presented. Therefore we studied the perception of the companies studied on the Statement of cash flows and the package of information that they wish to pass through it, the data being presented in Tables 5, 6 and 7.

The Statement of cash flows provides information about the ability of entities to generate cash and the way these cash and cash equivalents are used.

By analysing Table 6, it results that the objective of the companies in Mureş county by presenting the Statement of cash flows is mainly - 76.92% - the expression of true and fair information on actual cash flows and, as stated by 92.31% of those who prepared it (Table 5), this financial report is not a burden, being understood its usefulness.

However, 15.38% of entities from Mureş County believe that such information can be manipulated through accounting policies, therefore, even if they understand its utility, do not consider it to be sincere. Moreover, 7.69% (Table 5) of the companies prepare this financial statement of a certain obligation, without understanding its mission, and affirm that the information presented is less credible than the one offered through the Statement of financial position and the Statement of comprehensive income.

The Statement of cash flows prepared by the entities from Mureş County is addressed mainly to banks and investors (Table 8).

The opinions of financial statements preparers regarding the way information related to the Statement of cash flows helps these users in decision-making are shared (Table 7). Most companies (69.23%) consider that the Statement of cash flows serves targeted users in analyzing the relationship between cash and investment policy. They also consider important the relationship between profit

and cash (46.15%) and the relationship between cash and the liabilities evolution (30.77%).

- B. To identify, in direct relation with the size of the company, the real users of information provided by Statement of cash flows

The set of financial statements, in whole, prepared and presented by companies from Mureş County are addressed (Table 9) mainly to banks and financial institutions (83.33%), state (83.33%) and investors (70 83%). Practically, this result confirms the hypothesis stated by the authors. Analyzed based on turnover, this phenomenon is due primarily to the fact that all entities in the county with a turnover less than 1.000.000 Euros prepare the minimal set of financial statements, the main user of this statements being the state. Secondly, as the volume of activity increases, both banks and financial institutions services are more frequently appeal, which is why the image of financial position and performance of the entity becomes a significant concern for the financial statements preparers with a turnover exceeding 1.000.000 Euros (Table 9). However, for companies with turnover exceeding 7.300.000 Euros, existing and potential investor are considered to be the users for which the information contained in the financial statements is addressed to in the first place. Although we started from the assumption that primarily banks certify the relevance of the information from the Statement of cash flows, the study results invalidate this hypothesis. Entities that prepare the complete set of financial statements believe that the information presented in the Statement of cash flows are relevant primarily for investors (88.89% - Table 8), and banks are considered to be only on the second place (55.56% - Table 8).

- C. To identify the purpose of cash flow information in the financial management of the entity and the main users of this information

Knowing that a large part of the Mureş county entities do not prepare the complete set of financial statements and that the option to prepare the Statement of cash flows is not validated in practice, we sought to identify the need for information regarding the cash inflows and outflows at these entities. The overwhelming majority of respondents answered that they use the cash flow information in the short term financial management of the entity (91.69% of entities surveyed - Table 10), this conduct being imposed by the internal needs (86.63%) and banks (63.64% of these entities prepare cash flow information for requirements imposed by banks). The recourse to financing through the banking system is once again confirmed in the Romanian economic environment.

However, managing these liquidities takes place in a domestic household of an entity and we considered necessary to study how information about the cash flows are used and at the same time, their utility in the internal environment of companies from Mureş County.

The study shows that reports based on cash flow information are particularly requested by the managers of entities in 81.82% of cases, also serving banks (59.09%) and investors (50.00%) (see Table 11). One can observe a correlation between respondents answers as in Table 12 "short-term forecasts" represent the objective of cash flow information, and in Table 11, the manager is the most important user, the one that may require such information. So our hypothesis (HC3) was not confirmed because now the appeal to bank financing led to management involvement in the short-term administration of entities surveyed, this being a conscious and benefic involvement. The answers in Table 13 confirm the usefulness of information in decision-making regardless the entities' size (72.73%).

D. To identify which entities should prepare the Statement of cash flows as part of the complete set of financial statements

84.62% of surveyed entities that present a complete set of financial statements prepare the Statement of cash flows using the direct method to determin cash flows from operating activities (Table 14).

Taking into consideration the fact that the surveyed entities use information regarding the cash flows, either from the Statement of cash flows, or from other reports, our curiosity was whether the Statement of cash flows should be compulsory for all entities, regardless their size. The answer was as expected: 54.55% of companies (Table 15) do not consider that this financial statement should be compulsory. We believe that each entity prefers to produce its own ways to inform on cash inflows and outflows, adapted to the specific of the entity.

However, 50% of entities in Mureş County (Table 16) consider that preparing the Statement of cash flows should be mandatory for companies that exceed the turnover of 1.000.000 Euros, 33.33% of them believe that the requirement should be introduced only if that company recorded a turnover exceeding 7.300.000 Euros, while 8.33%, although consider it to be important, do not think this statement should be imposed.

So, from habit or convenience, in their great majority, entities from Mureş County are satisfied with the current legal regulations concerning the presentation of the Statement of cash flows.

Table 6. Credibility of the information presented in the Statement of cash flows

Assessment of credibility	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover exceeding 7.300.000 Euros		TOTAL
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	
The most „honest“ information	2	100,00%	2	100,00%	6	66,67%	10
Information that can be manipulated through accounting policies					2	22,22%	2
Information the less credible					1	11,11%	1
							76,92%
							15,38%
							7,69%

Table 7. The purpose of the information offered by the Statement of cash flows

Purpose	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages
To analyze the relation between profit and cash	1	50.00%	2	100.00%	3	33.33%	6	46.15%
To analyze the relation between cash and the evolution of liabilities					4	44.44%	4	30.77%
To analyze the relation between cash and the investment policy	1	50.00%	1	50.00%	7	77.78%	9	69.23%

Table 8. Hierarchy of financial statements users

Users of the financial statements	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover exceeding 7.300.000 Euros		TOTAL
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	
<i>Users of the Statement of financial position</i>							
Banks	1	50,00%	2	100,00%	8	88,89%	11
Investors			2	100,00%	6	66,67%	8
State	1	50,00%			5	55,56%	6
Suppliers, customers					2	22,22%	2
Employees					1	11,11%	1
Auditors					1	11,11%	1
Syndicates					1	11,11%	1
Management					1	11,11%	1
Stock Exchange					1	11,11%	1
<i>Users of the Statement of comprehensive income</i>							
Banks	1	50,00%	2	100,00%	7	77,78%	10
Investors			2	100,00%	8	88,89%	10
State	1	50,00%			5	55,56%	6
Suppliers, customers					2	22,22%	2
Employees					1	11,11%	1
Auditors					1	11,11%	1
Syndicates					1	11,11%	1
Management					1	11,11%	1
Stock Exchange					1	11,11%	1

Users of the financial statements	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover exceeding 7.300.000 Euros		TOTAL
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	
<i>Users of the Notes to the financial statements</i>							
Banks	2	100,00%	2	100,00%	5	55,56%	7
Investors	2	100,00%	2	100,00%	9	100,00%	11
State					3	33,33%	3
Auditors					1	11,11%	1
Syndicates					1	11,11%	1
Management					1	11,11%	1
<i>Users of the Statement of cash flows</i>							
Banks	2	100,00%	2	100,00%	5	55,56%	7
Investors	1	50,00%	1	50,00%	8	88,89%	9
Suppliers, customers					1	11,11%	1
Auditors					1	11,11%	1
Management					2	22,22%	2
<i>Users of the Statement of changes in equity</i>							
Banks	1	50,00%	1	50,00%	5	55,56%	6
Investors	2	100,00%	2	100,00%	7	77,78%	9
State					2	22,22%	2
Auditors					1	11,11%	1
Syndicates					1	11,11%	1
Management					1	11,11%	1

Table 9 The users of the financial statements prepared by the studied entities

Users of the financial statements	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages
Banks and financial institutions	5	62,50%	6	100,00%	9	90,00%	20	83,33%
Investors	3	37,50%	4	66,67%	10	100,00%	17	70,83%
State	8	100,00%	4	66,67%	8	80,00%	20	83,33%
Suppliers, customers	3	37,50%	1	16,67%	4	40,00%	8	33,33%
Employees	2	25,00%	1	16,67%	3	30,00%	6	25,00%
Stock Exchange	0	0,00%	0	0,00%	2	20,00%	2	8,33%
Auditors	0	0,00%	0	0,00%	2	20,00%	2	8,33%
Managers	0	0,00%	0	0,00%	2	20,00%	2	8,33%
Syndicates	0	0,00%	0	0,00%	1	10,00%	1	4,17%

Table 10. Analysing activities based on cash flow information

Entities use/don't use cash flow information	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover Exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages
Yes	6	75.00%	6	100.00%	10	100.00%	22	91.67%
No	2	25.00%	0	0.00%	0	0.00%	2	8.33%

Table 11. The request for preparing cash flow information

Cash flow information request	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages
Management	4	66.67%	4	66.67%	10	100.00%	18	81.82%
Banks	4	66.67%	3	50.00%	6	60.00%	13	59.09%
Investors	5	83.33%	2	33.33%	4	40.00%	11	50.00%
Other creditors	0	0.00%	0	0.00%	0	0.00%	0	0.00%
There is no request for such information	1	16.67%					1	4.55%

Table 12. The purposes that emphasize the utility of cash flow information

Purposes	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentage	Frequencies	Percentage	Frequencies	Percentage
the daily cash flows	1	16.67%	2	33.33%	4	40.00%	7	31.82%
pursuance								
the short-term forecast	4	66.67%	6	100.00%	9	90.00%	19	86.36%
of cash flows								
requirements imposed	5	83.33%	3	50.00%	6	60.00%	14	63.64%
by banks or other								
financial institutions								
demand from investors					1	10.00%	1	4.55%
medium and long term					1	10.00%	1	4.55%
planning								
to control the massive					1	10.00%	1	4.55%
outflows in the								
investment activity								

Table 13. The usefulness of cash flow information in making decisions

Usefulness	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover Exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages
very useful	4	66.67%	4	66.67%	8	80.00%	16	72.73%
only confirm or quash the decision made by managers	1	16.67%	2	33.33%	2	20.00%	5	22.73%
have no impact on decision	1	16.67%	0	0.00%	0	0.00%	1	4.55%

Table 14. Presentation method of cash flows from operating activities

Type of method	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover Exceeding 7.300.000 Euros		TOTAL	
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages
Direct method	2	100.00%	1	50.00%	8	88.89%	11	84.62%
Indirect method			1	50.00%	3	33.33%	4	30.77%

Table 15. The Statement of cash flows should be compulsory?

Compulsory	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover Exceeding 7.300.000 Euros		TOTAL
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	
Yes	2	33.33%	3	50.00%	4	40.00%	9 40.91%
No	4	66.67%	3	50.00%	5	50.00%	12 54.55%
No answer					1	10.00%	1 4.55%

Table 16. The Statement of cash flows should be compulsory when a certain criterion is fulfilled

Criterion	Turnover 35.000 – 1.000.000 Euros		Turnover 1.000.000 – 7.300.000 Euros		Turnover Exceeding 7.300.000 Euros		TOTAL
	Frequencies	Percentages	Frequencies	Percentages	Frequencies	Percentages	
Turnover between 35.000 – 1.000.000 Euros	3	75.00%	2	66.67%	1	20.00%	6 50.00%
Turnover between 1.000.001 – 7.300.000 Euros			1	33.33%	3	60.00%	4 33.33%
Turnover exceeding 7.300.000 Euros	1	25.00%					1 8.33%
In case of private companies					1	20.00%	1 8.33%
This statement is important, but it should not be compulsory							0 0.00%

DISCUSSION AND CONCLUSIONS

The study made by our team covers the lack of empirical validation of the hypothesis spread in the economic and academic field from Mureş County.

These hypothesis mostly refer to the most important users of the financial statements, the entities that prepare the statement of cash flows, the recognized usefulness of information provided by the Statement of cash flows, and to the way cash flow information is used for the financial management of the entities.

Our study revealed the following facts:

- a) The most important users of the financial statements are the banks and financial institutions. The state remains also a significant beneficiary of these statements, regardless the entity size.
- b) However, entities with a turnover exceeding 7.300.000 Euros consider investors the most important category of users of the financial statements.
- c) Entities that prepare the Statement of cash flows recognize its usefulness in an overwhelming proportion.
- d) Among the prepared financial statements, the financial information based on cash flows is the most sincere.
- e) Regardless the entity size, the analysis of the activity is based on short-term information regarding cash inflows and outflows and the most important of this kind of information is the management.
- f) Although 54,55% of the studied entities consider that the Statement of cash flows shouldn't be compulsory, almost the same percentage would impose it for those entities that have a turnover exceeding 1.000.000 Euros.

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APPENDIX

QUESTIONNAIRE

Testing the impact of the Statement of Cash Flows on the companies from Mureş County versus the need of cash flow information required by other entities in the same area

Note: you can choose several variants

1) In which of the following categories the company you work for is included, taking into account the turnover for the financial year 2007 (course Ron /Euros 3,6102):

- a) turnover between 35.000 – 1.000.000 Euros;
- b) turnover between 1.000.001 – 7.300.000 Euros;
- c) turnover exceeding 7.300.000 Euros.

2) In your opinion, which users of financial accounting information are addressed to the financial statements prepared by an entity:

- a) banks and other financial institutions;
- b) investors;
- c) state;
- d) suppliers, customers;
- e) employees;
- f) other entities _____(mention what they are).

3) Which are the financial statements prepared at the end of the year in your company:

- a) Statement of financial position;
- b) Statement of comprehensive income;
- c) Notes to the financial statements;
- d) Statement of cash flows;
- e) Statement of changes in equity.

If you prepare all 5 financial statements, please answer the questions 4) - 8).

If you prepare only the first three of the financial statements mentioned, go to question 9).

4) Specify which is in your opinion the financial statement that offers the most relevant information to users identified in the question number 2:

- a) Statement of financial position for_____ (complete the category of users);
- b) Statement of comprehensive income for____ (complete the category of users);
- c) Notes to the financial statements for_____(complete the category of users);
- d) Statement of cash flows for_____ (complete the category of users);
- e) Statement of changes in equity for_____(complete the category of users).

If you have other additions _____

5) Preparing the Statement of cash flows is a burden or you understand first its utility:

- a) burden;
- b) I understand its utility.

6) The information offered by the Statement of cash flows expresses:

- a) the most „honest” information through certain cash flows during the year;
- b) information that can be manipulated through accounting policies applicable;
- c) the less credible information reported to the Statement of financial position and to the Statement of comprehensive income.

7) Do you consider that the information in the Statement of cash flows help users of financial and accounting information to analyze:

- a) the relationship between profit and cash;
- b) the relationship between cash and the evolution of liability according to the company’s Statement of financial position;
- c) the relationship between cash and the company’s investment policy.

8) What presentation method of cash flows from operating activities do you use:

- a) the direct method;
- b) the indirect method.

9) Do you use the cash flow information to analyze the activity of your company:

- a) YES;
- b) NO.

If your answer is YES, please continue with the following questions:

10) For what purposes is the cash flow information useful:

- a) for the daily cash flows pursuance;
 - b) for the forecast short-term cash flows;
 - c) for requirements imposed by banks or other financial institutions;
 - d) for other considerations (please specify)
-

11) The request for preparing situations based on the cash flow information comes from:

- a) company's management;
- b) banks;
- c) investors;
- d) other creditors (suppliers, other financial institutions) _____

12) Please grade the usefulness of these information decision-making at entity level on a scale of 1 to 3:

- 1 – very useful;
- 2 – only confirm or quash the decision taken by managers, but does not influence it;
- 3 – they have no impact on the decision taken by managers.

13) Do you consider that the Statement of cash flows should be compulsory for all the Romanian entities:

- a) YES;
- b) NO.

14) If your answer is No, the level you consider that there should start a requirement for such statement is:

- a) turnover between 35.000 – 1.000.000 Euros;
 - b) turnover between 1.000.001 – 7.300.000 Euros;
 - c) turnover exceeding 7.300.000 Euros;
 - d) another criterion is more relevant; specify what that is
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