Management of Cash Flow Information for Investment Decisions
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Abstract
This study is concerned with investigating the significance of information contained in the cash flow statements of Libyan investment companies. A Variety of Libyan investment companies' this study aims to evaluate the extent to which Libyan investment companies rely on the information provided by Cash Flow Statements, and focuses on sector differences.

Cash Flow Statements are important sources within financial statements, as suggested by the Financial Accounting Standards Board (FASB 1978). Moreover, cash flows are involved in various economic decision contexts such as liquidity and solvency evaluation and performance evaluation, many studies have investigated the ability of Cash Flow Statement data to predict future cash flows. In addition, most research has been undertaken in the USA and UK. There has been no published research undertaken in Libya. (Aloud 2005).

Libyan investment companies have doubts regarding the usefulness of cash flow statements, as there is little evidence on the usefulness of the Cash Flow Statement, in the case of Libya (Aloud 2005). This makes users of financial statements unwilling to use cash flow information in their decisions. Libya is a developing country this current study focuses exclusively on the information provided by Cash Flow Statements in Libyan investment companies, and fills a gap in the literature. The investment in Libya is important to the economy, as it
represents a significant revenue base for the future of the country (Otman and Karlberg, 2005).

A Variety of Libyan investment companies’ have been investigated. Specifically, this study aims to evaluate the extent to which Libyan investment companies rely on the information provided by Cash Flow Statements, and focuses on sector differences.

In this study, to test the study aim, a quantitative research method will be employed in form of a questionnaire survey. As explained above, the main aim of the study is to highlight the views and perceptions of officials at the Libyan Investment Companies. For exploratory purposes, in this type of study, empirical work is considered to be important. Therefore, the researcher used the questionnaire survey method as a questionnaire was determined to be the most efficient and economical method of collecting data.

The findings revealed that the Libyan investment companies show that the Cash Flow Statement useful in providing information to help decision makers to determine the strategy that the company will adopt in further financing investment activities and an important resource in order to ensure continuity of expansion. They believe that a Cash Flow Statement is important to highlight the liquidity in the company and in turn help to make a particular decision. For example creditors decide to increase or decrease the level of loans to the company according to its liquidity.

1. Introduction

A cash flow statement is a financial report that shows incoming and outgoing cash during a particular period (often monthly or quarterly). The statement indicates
how changes in the balance sheet and income statement affected cash and cash equivalents and breaks the analysis down according to operating, investing, and financing activities according to IAS7. As an analytical tool, the CFS is useful in determining the short-term viability of a company, particularly its ability to pay bills.

Cash flow is not a new concept. Up to the 18th century, CFSs were the main reporting system. There was relatively little importance attached to accounting allocations and profit measurement since most transactions were conducted and recorded in cash terms (Sharma 2001). However, the industrial revolution precipitated business growth and continuity, which required more funds than the business generated. The complexity and number of transactions increased giving rise to the need for periodic financial statements measuring profit and financial position.

The financial statements include the CFS to provide information about a company's cash inflow and outflow when using the direct method.

The growing importance in reporting cash flow data internationally can be seen from the International Accounting Standards Committee (IASC) issuing IAS7 (revised 1992), which took effect from 1 January 1994 and superseded IAS7 "Statement of Changes in Financial Position" issued in July 1977. The objective of IAS7 (revised 1992) is to provide information about the historical change in cash and cash equivalents by means of a CFS. The CFS is classified into three standard headings cash flow from operations, investment, and financing activities. In the USA, the Financial Accounting Standards Board statement (SFAS 95) requires companies to include the cash flow statement in the financial statements of a company. This information is helpful in predicting a company’s cash inflow and
outflow as long as the past reflects the future. They adopted a similar approach to IAS7. The assumption is that it facilitated investment and credit decisions related to the company.

2. Literature Review

A number of studies have examined user needs and financial information uses. The former do not suggest that users were seeking information relating to CFS (Jones et al, 1995) has revealed significant support for CFS by representatives of 210 public companies. If found that these preparers regarded CFS as having greater decision usefulness than funds statements. However this study reported managerial perceptions and internal company viewpoints of CFS rather than the actual views of external users. These results need to be confirmed against the responses of external users who use financial statements regularly and in a number of different decision contexts.

Results from these studies show consistency in some significant areas. Respondents generally regarded annual financial reports as important sources of information; though each section was not regarded as being of equal significance. Income data were regarded as a primary information source with liquidity data (at least in the earlier stages) being largely ignored, or being regarded as 'secondary material' when analysing corporate results. Hence these earlier respondents do not appear to display the same level of acceptance of CF information as displayed in the academic and professional literature. Even though the Lee (1981b), McEnroe (1989) and Jones et al. (1995) studies show more support for CFS, their survey population was confined to professional accountants and preparers. Hana (1991) examined the incremental information content of cash flow and accruals
announcements and the effect of firm sizes default risk and industry membership upon the strength of any cash flow relationship. He found that balance sheet proxy cash flow variables capture different or noisier information than do statements of change in financial position (SCFP) proxy variables.

The Epstein and Pava’s (1992) and Anderson and Epstein’s (1995) studies, whilst providing some empirical evidence as to shareholder use of CFS, did not investigate reasons for their use. The usefulness of CFS in their decision-making. The academic literature reported a strong demand for CF data by financial analysts, financial institutions and the like, during the 1980s. This would lead one to expect such ‘expert’ users to support CFS even more strongly than shareholders and preparers. This study sets out to determine if this is in fact the case. In addition it seeks to determine whether specialist users agree with the claims made in the literature as to the need for CF information.

Yap (1997) identifies four possible contributing factors of demand for cash flow information: (i) the limitations of conventional accrual accounting, (ii) dissatisfaction with the funds statement, (iii) relevance for users’ decisions, and (iv) changes in the reporting environment. To determine the extent to which investors and creditors agreed with these factors in favour of publishing cash flow data, a survey was conducted of workers in the finance industry in Australia. The results support the claims made in the academic and professional literature as to the need for cash flow information. Cash flow statements have become important sources of information for users. They have not, however, replaced the conventional income statement and balance sheet. All three financial statements are considered to be complementary.
Haw et al., (2001) investigated the relative and incremental information content of earnings, operating cash flows, and accruals in the emerging capital market of China. The issue is tested by regressing stock returns on the levels of earnings and their components. Based on a sample of 1516 firm-years for listed Chinese firms during 1995-1998, their results demonstrate that earnings have relatively little impact on the information content of operating cash flows. They also found that discretionary accruals provide incremental information beyond that contained in nondiscretionary accruals, consistent with the argument that discretionary accruals improve the relevance of earnings in reflecting the fundamental values of the listed Chinese firms.

Prior studies that focus on mature capital markets like the United States or United Kingdom examine whether accruals add information to operating cash flows to improve earnings’ ability to explain returns and whether discretionary and nondiscretionary accruals are priced differently. Some researchers document that both operating cash flows and accruals have incremental information content over each other and they are priced differently by the market (e.g., Bowen, Burghstahler, & Daley, 2006; Cheng, Liu, & Schaefer, 2005; Dechow, 2002; Wilson, 2004, 2006). On the contrary, other studies find little evidence of either component having incremental information content (e.g., Bernard & Stober, 2003). Recently, Subramanyam (2006) finds that the market prices discretionary accruals, possibly because the discretionary component improves earnings’ ability to reflect fundamental value. Beaver and Engel (2006) and Walhen (2001) report that discretionary accruals have incremental information content in commercial banks’ loan loss disclosures.
These studies focus on mature markets, such as in the United States. The role of accrual accounting has yet to be studied in the emerging capital market of China. Privately owned Chinese firms are at a young stage and are less known to investors. The accounting standards and practices in China are evolving slowly. Financial reporting and capital market systems, too, are relatively primitive and the quality of auditing is generally perceived to be low, compared to the mature markets of the United States and United Kingdom (Abdel-khalik, Wong, & Wu, 1999; Aharony, Lee, & Wong, 2000) where accounting systems are more sophisticated and investors relatively well informed. Some critics argue that accounting information in emerging capital markets like China may not be reliable or useful to investors.

Research methodology

This study focuses on the developing countries and particular Libyan investment companies a questionnaire was designed to highlight the views and perceptions of officials at the Libyan Investment Companies.

For exploratory purposes, in this type of study, empirical work is considered to be important. Therefore, the researcher used the questionnaire survey method as a questionnaire was determined to be the most efficient and economical method of collecting data. Saunders et al (2000:278) considered questionnaires as a general term to include all techniques of data when respondents are asked to respond to the same set of questions in the same order. In the same vein, Collis and Hussey (2003:173) argue that questionnaires are related to positivistic and phenomenological methodologies. They defined a questionnaire as "a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample. The aim is to find out what a selected group of participants do, think or feel". In the same context, Sekaran
(2003:236) defines a questionnaire as a “preformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives”. Sekaran (2003) viewed the questionnaire tool as the most efficient and important one in collecting data when the researcher exactly knows what type of information he needs and how to measure the study variables. The next section will review the types of questionnaires in general and the ones used in the study. Ordinal scales are used when the respondent is asked for responses in the form of a rank ordering as the evidence is put into categories. The numbers assigned indicate the ordering of the categories (Remenyi et al 2002). In this questionnaire, they were asked to circle one of the five boxes on a five-point scale that ranged in agreement from (1) strong disagreement to (5) strong agreement. Therefore, an interval scale is found to be suitable for this study. A Likert-type scale is employed in this study. This type of scale suggested that every statement in the scale has the same attitudinal value, weight or importance in order to reflect an attitude towards the issues examined by the scale (Sekaran 2003).

Population and sample

As mentioned earlier, this study focused on the Libyan investment companies. Therefore the questionnaires were delivered personally and mailed to officials at the Libyan Investment Companies, the executive managers who worked for those investment companies; financial managers; accounting managers; and internal audit department managers as these people are associated with the cash flow statement. There are two reasons for the selection of these groups. (1) All of them had some input into the preparers or reviews the cash flow statements which are likely to expose them to the issue of CFS at some stage. (2) Individuals at a high level of management could be expected to decision-maker on their organisation's operations.
and may thus be viewed as being able to address questions surrounding CFS in this context.

3. Data Analysis

The methods and techniques used in this study include (a) descriptive statistics (b) One-way ANOVA test. The descriptive statistics method comprises frequencies (counts and percentages), measures of central tendency (mean). Frequencies enable researcher to describe the characteristics of the studied sample and to know the frequency distributions of the variables under investigations. The 'mean' was the main statistical measure employed in this study to analyse the participants' returns. The idea is that for a particular item on the questionnaire, the researcher aims to compute the mean value that underscores the respondents' behaviour with respect to the stated study question and/or hypothesis. The questionnaire employed in this study used a five-point scale that ranged in agreement from (1) strong disagreement to (5) strong agreement. Therefore, an interval scale is found to be suitable for this study. A Likert-type scale is employed in this study. This type of scale suggested that every statement in the scale has the same attitudinal value, weight or importance in order to reflect an attitude towards the issues examined by the scale (Sekaran 2003).

The data collected from the survey were analysed using the SPSS computer program to test the appropriateness of these scales to measure the study variables.

A One-way ANOVA test was used to find out whether there are any significant differences between target groups. The justification for using this tool was that interval data was used to address opinions' participants. In addition, the data was
normally distributed

Reliability analysis

By using a Cronbach’s alpha test the reliability was tested for all items in the scales. Cronbach’s alpha for this study was .78 which was over .70. Thus, Table 1 provides evidence that the alpha score above 0.70, which indicate that measurement model, is reliable.

<table>
<thead>
<tr>
<th>Number of items</th>
<th>Number of cases</th>
<th>Cronbach's alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>180</td>
<td>0.78</td>
</tr>
</tbody>
</table>

4. Results and Discussion

The results show that the Cash Flow Statement useful in providing information to help decision makers to determine the strategy that the company will adopt in further financing investment activities and an important resource in order to ensure continuity of expansion. They believe that a Cash Flow Statement is important to highlight the liquidity in the company and in turn help to make a particular decision.

The result of this test is presented in table (2). Looking at the 15 questions regarding the effect of cash flow information on investment decisions in investment firms.

Q1- the Cash Flow Statement provides information about liquidity 84% of the participants agreed with that However, the result of overall mean (4.10) indicated that their opinions were between agree and strongly agree for the Cash Flow Statement provides information about liquidity.
Q2- the Cash Flow Statement providing information about the quality of cash flow management 45% of respondent agree with that However, the result of the overall mean (3.23) indicated that their opinion was between neutral and agree for the Cash Flow Statement providing information about the quality of cash flow management.

Q3- the Cash Flow Statement helps users to understand financial results in a better way. 57% of the participants agreed with that However, the result of overall mean (3.51) indicated that their opinions were between neutral and agree for the Cash Flow Statement helping users to understand financial results in a better way.

Q4- the Cash Flow Statement is used for internal purposes 53% of respondents agree with that. However, the result of overall mean (3.41) indicated that their opinion was between neutral and agree for the Cash Flow Statement being used for internal purposes.

Q5- Cash Flow Statement is used for external purposes by bankers, creditors and analysts. 45% of the participants agreed with that However, the result of overall mean (3.36) indicated that their opinion was between neutral and agree for Cash Flow Statement being used for external purposes by bankers, creditors and analysts.

Q6- the Cash Flow Statement is useful in evaluating the financial position of the company and comparing performance between companies. 70% of respondents agreed with that However, the result of the overall mean (3.74) indicated that their opinions were between neutral and agree for whether the Cash Flow Statement is useful in evaluating the financial position of the company and comparing performance between companies.
Q7- the Cash Flow Statement provides information not included in the income statement and the balance sheet. 66% of the participants agreed with that. However, the result of overall mean (3.81) indicated that their opinion were between neutral and agree for the cash flow statement providing information not included in the income statement and the balance sheet.

Q8- the Cash Flow Statement is useful for discovering any fraud in the income statement. 63% of respondents agreed with that. However, the result of overall mean (3.60) indicated that their opinions were between neutral and agree for whether the Cash Flow Statement is useful for discovering any fraud in the income statement.

Q9- the Cash Flow Statement provides information about future cash flows. 46% of the participants agreed with that. However, the result of overall mean (3.23) indicated that their opinions were between neutral and agree for whether the Cash Flow Statement provides information about future cash flows.

Q10- That Cash Flow Statement provides more disclosure than income statement and balance sheet. 73% of respondent agree with that. However, the result of overall mean (3.80) indicated that their opinions were between neutral and agree for that Cash Flow Statement provides more disclosure than income statement and balance sheet.

Q11- the Cash Flow Statement meets the needs of decision makers. 68% of respondent agree with that. However, the result of overall mean (3.76) indicated that their opinion were between neutral and agree for the Cash Flow Statement meeting the needs of decision makers.

Q12- the Cash Flow Statement assists internal financial management in assessing the need for borrowing. 78% of the participants agreed with that. However, the
result of overall mean (3.90) indicated that their opinion were between neutral and agree for the Cash Flow Statement assisting internal financial management in assessing the need for borrowing.

Q13- Cash Flow Statements provide sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability. 56% of respondent agree with that. However, the result of overall mean (3.48) indicated that their opinions were between neutral and agree for Cash Flow Statements providing sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability.

Q14- the Cash Flow Statement assists financial management in assessing the need for expansion in investment activity and funding 71% of the participants agreed with that. However, the result of overall mean (3.82) indicated that their opinion were between neutral and agree for the Cash Flow Statement assisting financial management in assessing the need for expansion in investment activity and funding.

Q15- the Cash Flow Statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period. 55% of respondent agree with that. However, the result of overall mean (3.46) indicated that their opinions were between neutral and agree for the Cash Flow Statement assessing the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period.

The result of one-way ANOVA test shows a general agreement amongst the four groups. It revealed that twelve questions supported the null hypothesis ($H_0$, $p>0.05$). Meanwhile, three questions supported the alternative hypothesis ($H_1$, $p<0.05$).
Table: (2) results of one way ANOVA testing the hypothesis.

<table>
<thead>
<tr>
<th>Q</th>
<th>The statement</th>
<th>Significance test</th>
<th>Hypothesis supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cash flow statement provides information about liquidity</td>
<td>.627</td>
<td>H₀</td>
</tr>
<tr>
<td>2</td>
<td>Cash flow statement provides information about the quality of cash flow management</td>
<td>.341</td>
<td>H₀</td>
</tr>
<tr>
<td>3</td>
<td>Cash flow statement helps users to understand financial results in a better way</td>
<td>.053</td>
<td>H₀</td>
</tr>
<tr>
<td>4</td>
<td>Cash flow statement is used for internal purposes</td>
<td>.983</td>
<td>H₀</td>
</tr>
<tr>
<td>5</td>
<td>Cash flow statement is used for external purposes</td>
<td>.525</td>
<td>H₀</td>
</tr>
<tr>
<td>6</td>
<td>Cash flow statement is useful in evaluating the financial position of the company and comparing performance between companies</td>
<td>.024</td>
<td>H₁</td>
</tr>
<tr>
<td>7</td>
<td>Cash flow statement provides information not included in the income statement and the balance sheet</td>
<td>.731</td>
<td>H₀</td>
</tr>
<tr>
<td>8</td>
<td>Cash flow statement is useful for discovering any fraud in the income statement</td>
<td>.496</td>
<td>H₀</td>
</tr>
<tr>
<td>9</td>
<td>The cash flow statement provides information about future cash flows</td>
<td>.030</td>
<td>H₁</td>
</tr>
<tr>
<td>10</td>
<td>Cash flow statement provides more disclosure</td>
<td>.541</td>
<td>H₀</td>
</tr>
<tr>
<td></td>
<td>Cash flow statement meets the needs of decision makers</td>
<td></td>
<td>H₀</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>11</td>
<td></td>
<td>.180</td>
<td>H₀</td>
</tr>
<tr>
<td>12</td>
<td>Cash flow statement assists financial management in assessing the need for borrowing</td>
<td>.700</td>
<td>H₀</td>
</tr>
<tr>
<td>13</td>
<td>Cash flow statement provides sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability</td>
<td>.104</td>
<td>H₀</td>
</tr>
<tr>
<td>14</td>
<td>Cash flow statement assists financial management in assessing the need for expansion in investment activity and funding</td>
<td>.470</td>
<td>H₀</td>
</tr>
<tr>
<td>15</td>
<td>Cash flow statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period</td>
<td>.028</td>
<td>H₁</td>
</tr>
</tbody>
</table>

Based on the above findings, it can be suggested that there are no significant differences between official's opinions regarding the effect of cash flow information on investment decisions in investment firms, and the following null hypothesis was accepted:

H₀: there is no significant difference between the sample means in official's opinions regarding the effect of cash flow information on investment decisions in investment firms when factored by type of company.

Tukey's HSD (Honestly Significant Differences) Test:

As mentioned earlier, the one way ANOVA test does not provide which groups differ. Therefore, additional analysis is needed to identify differences between groups (Pallant, 2001, p.180). Therefore, a Post-hoc test is needed using a different hypothesis using an ANOVA test in order to determine which groups differ from each other. This test is used for testing the significance of unplanned pairwise comparisons. When you do multiple significance tests, the chance of finding a "significant" difference just by chance increases. Tukey's HSD test is one of several methods of ensuring that the chance of finding a significant
difference in any comparison (under a null model) is maintained at the alpha level of the test. Therefore, the following stage aims to present the results of the Tukey's HSD test for the whole sample to determine the differences among groups. The Tukey's HSD test revealed that there are differences between participants in some questions are found as we can see in tables (3). below summarises the results of Tukey's HSD test when the sample is factored by the type of company where differences were observed (p<0.05).

<table>
<thead>
<tr>
<th>No</th>
<th>Questions</th>
<th>Set1(means)*</th>
<th>Set 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>the cash flow statement is useful in evaluating the financial position of the company and comparing performance between companies</td>
<td>3.40(C.C)</td>
<td>3.65(S.C)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.65(S.C)</td>
<td>3.91(A.C)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.91(A.C)</td>
<td>3.94(M.C)</td>
</tr>
<tr>
<td>2</td>
<td>the cash flow statement provides information about future cash flows</td>
<td>3.00(S.C)</td>
<td>3.07(C.C)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.07(C.C)</td>
<td>3.15(A.C)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.15(A.C)</td>
<td>3.62(M.C)</td>
</tr>
<tr>
<td>3</td>
<td>the cash flow statement assessing the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period</td>
<td>3.15(S.C)</td>
<td>3.38(C.C)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.38(C.C)</td>
<td>3.53(C.A)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.53(C.A)</td>
<td>3.69(M.C)</td>
</tr>
</tbody>
</table>
(S.C) Service Company (M.C) manufacture company (A.C) Agricultural company(C.C) commercial company

Q1 Cash flow statement is useful in evaluating the financial position of the company and comparing performance between companies

As we can see from the table above, significant differences were observed among the type of company. A higher agreement was noticed for the manufacture company; meanwhile, the other set recorded slightly agreement that the cash flow statement is useful in evaluating the financial position of the company and comparing performance between companies.

Q2 the cash flow statement provides information about future cash flows

There are differences between groups are occurred, where, the manufacturer company (mean of 3.62) are statistically different from the others. All sets recorded agreement except (Service Company), which its opinion was neutral about whether the cash flow statement provides information about future cash flows.

Q3 Cash flow statement assesses the effects on the company’s financial position of both its cash and noncash investing and financing transactions during a period

A post hoc test using Tukey’s test table showed that, Service Company (means of 3.15) is statistically different from Manufacture Company (mean of 3.69), although, all sets show agreement.

5. Conclusion

In general the results indicate that the Libyan investment companies believe that the Cash Flow Statement assists in taking decisions concerning financial requirements. They mentioned that the Cash Flow Statement is very useful for
taking decisions on the raising of more capital and the distribution of dividends. They also help decision makers to take decisions about the required funding.

In conclusion, following a review of the relevant literature and the research’s finding, the current study makes a contribution to knowledge.

1. The findings of this study will assist users of financial information to make decisions. Investors and creditors can use Cash Flow Statements to assess future cash flows of companies in evaluating their future liquidity, solvency and other performance.

2. The results of this study will provide evidence of the relevance of the Cash Flow Statements of Libyan investment companies.

3. This study contributes to enrich the limited studies on CFS conducted in developing economies in general and within the Arab countries in particular. It is the first study which addresses CFS in Libya which has been neglected in the CFS literature. It provides the first detailed assessment of CFS information among Libyan investment companies. This study provides the basis for a comparison with other Arab and developing economies, as well with as developed economies.

4. The importance of this study is demonstrated by the literature reviews, as the results have indicated little academic research in the cash flow statement field.

Based on the research’s outcomes some recommendations can be made in relation to Cash Flow Statement, in particular, the significance of information contained in the Cash Flow Statements, in general within the Libyan context. There are two key recommendations:
Firstly, So as to improve the awareness of the importance of information contained in the Cash Flow Statements, Libyan organisations should present the information in a form where it is accessible to both internal and external stakeholders. Secondly, to provide guidance for the companies in Libya about the Cash Flow Statement, the accounting body in Libya should issue a local standard regarding Cash Flow Statement or support the use of IAS7.

References


