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IFRS: Cashflow Accounting and Financial Performance of Quoted Companies in Nigeria

[1]Dr. Nwaiwu, N. J. & [2]Oluka, N.O.

[1]Department of Accounting, Faculty of Management Sciences, University of Port-Harcourt, Port-Harcourt, Nigeria
Email: johnsonnwaiwu@gmail.com

[2]Department of Accounting, Faculty of Management Sciences, University of Port-Harcourt, Port-Harcourt, Nigeria

ABSTRACT
The rapid growth of research on cash flow accounting has resulted in some conceptual confusion about the nature of the construct, and made it difficult for all but the most avid readers of corporate reporting to keep up with developments in this domain. This paper critically examines the influence of cash flow accounting of financial performance. More specifically, to explore influence of CFA on financial performance of quoted companies in Nigeria. The study employs multiple linear regression on panel data analysis on a sample of 24 firm observations for non-financial sector on the Nigeria stock exchange (NSE) covering the five years time span from 2004-2008. The results of the analyses demonstrate the positive influence of CFA on financial performance. Additionally, the influence of CFA is found to be more strongly pronounced on financial performance. The study recommends further investigations into the influence of CFA and firm financial performance, using larger sample size, covering more years, and including particularly the banking sector that has witnessed major reforms since 2005 and plays a critical role in economic development of Nigeria.
Keywords: Cash Flow Accounting, Corporate Profitability, Operating Profit, Profit Before Tax, Financial Performance.

INTRODUCTION

The development of cash flow accounting (CFA) and firm financial performance has been of immense interest to the accounting profession, researchers, regulators, and policymakers, with increasing empirical attention over the past two decades (see for example, Grandel, 2000; Bush et al, 2000; Fama & French, 2005; Titman & Ali, 2008; Fax & Marcus, 2008; Murphy & Dial, 2011; Cole, 2012). The perspective about CFA is reinforced by the fact that accounting is a stewardship process that is historically shaped by economic and political forces (Watts. 1977; Watts & Zimmerman, 1986; Herbert, et al, 2013). That the mode of financial reporting plays a key role in firm performance and ultimately in economic development nationally and globally is a prima facie indication of its influence in ensuring a strong investor confidence which is vital to the optimal functioning of financial markets and, consequently, to economic development (Herbert et al, 2013; Nwaiwu, 2014).

There is virtual unanimity with the proposition that the modern business is all about trade, the exchange of value between two or more parties, and that cash is both central to the exchange and the asset needed for participation in the economic system. There is much less agreement on what the attributes of the cash flow are and how it has evolved to take on its current configuration as a central feature of the modern corporation and the economy (Al-Attar & Hussain, 2004). While it is recognizable that some industries are more cash – intensive than others, it is an acknowledged fact that no business can survive in the long ran without generating positive cash flow for its owners (shareholders). Generating a positive cash flow precisely implies that the firm's long-term cash inflows exceed its long-term cash outflows.

Cash flow accounting (CFA) (also known as cash accounting) is the accounting process or system of tracking a firm's cash flow by trailing the movement of cash in and out of the firm, that is cash coming into and going out of the business. CFA is to be distinguished from cash basis accounting, which is the direct opposite of accrual accounting – the preferred method of accounting under the Generally Accepted Accounting Principles (GAAP). Every organization measures its cash flow to assess how successful and liquid the business is. (Alver, 2005; Bamber & Cheon, 2005; Board, 2009).

Any assessment of the dichotomy between cash flow and earnings (income) must start by distinguishing between profit and cash flow, that is, between being profitable and having positive cash flow transactions. In other words, that a business is making a profit does not mean it is bringing in cash, and vice versa. In effect, a strong positive cash flow now does not guarantee or imply a bright outlook for its current and future earnings potential (Fama & French, 1998; Lang, 2001; Gregory, 2005). Because cash flow can be positive while profitability is correspondingly negative, rational investors prefer to analyze income statements as well as cash flow statements, rather than one or the other.

Put differently, if a company reports economy's (or profits) of N1 billion, does this mean that it has N1 billion (or its cash equivalent) in the bank? This is not necessarily the case. This is because financial statements are based on accrual accounting, which takes into account non-cash items. Accrual accounting offers the window to best reflect the financial health of a company. However, it (accrual accounting) may create accounting noise (Watts, 1977; Nwaiwu, 2014), which sometimes needs to be fine-turned (or adjusted out) to delineate the amount of actual cash the company is generating. The need to provide this information underscores the relevance and utility of cash flow accounting.

Recent studies implicate CFA effects on economic entities operating in industries. Those entities have the company objectives, which to a larger extent include profitability and liquidity as targets. Every business organization needs profit to sustain its ownership interest, just as it needs to remain. Liquid enough to meet maturing obligations. CFA is expected to influence both liquidity and profitability objectives of such enterprises. The extent to which corporate activities influence these twin corporate objectives of liquidity and profitability in Nigeria remains an empirical issue for investigation (Epstein, 2002; Shama & Iselin, 2003). It is in the light of the foregoing that this study intends to empirically ascertain the influence between CFA and firm financial performance of quoted companies in Nigeria.

The cash flow accounting in its current format is a relatively new addition to a financial reporting package. It has only been part of Nigeria's GAAP since the introduction of Statements of Standard Accounting Practice (SSAP)10, cash flow accounting in 1994. Prior to that date Nigeria entities were required to prepare a statement of changes in financial position under SSAP to (more commonly referred to as a "fund statement") which provides some, but not all, of the information now presented by the cash flow accounting. This situation is not that dissimilar to other countries that operate in similar economic and political conditions (e.g., the United State of America (US), the United Kingdom (UK), Australia, and Canada) with most westernized countries introducing some form of fund statement by the early 1990's.

Since the introduction of the cash flow accounting to many countries' GAAP, its usefulness to decision-makers has received significant attention in the literature (Epsten, 2002; Sharma & Iselin 2003; Jones et al, 2005; Yap, 2006; Jones & Ratnatuga, 2007; Jones et al, 2008. in addition, several key advantages of cash flow information over traditional information found in the balance sheet and income statement have also been well documented (Neubert, 2000; Mason, 2000; Hicks & Hunt, 2000; Lee, 2002; Sharma and Iselin, 2003), with the most frequently cited relating to the greater level of information content for decision-makers and increased reliability over traditional accruals-based accounts.

The reasons documented for the second of these advantages include such factors as, a general lack of susceptibility to creative or aggressive accounting procedures, events and transactions being recorded based on their true economic impact and not simply their legal form and the clear establishment of representational and definitional criteria. Of interest to this study is the significance of recent comments within the profession (e.g. Solomon, 2002; Tergesen, 2002; Broome, 2004) which raised questions about the reliability characteristic to which many preparers, auditors, and users understand to exist. This relatively new interest in the cash flow accounting vulnerability has shifted into mainstream practitioners' journals largely due to the recent number of large corporate collapses (Enron and world com) in which the cash flow accounting itself was subject of aggressive accounting practice (Broome, 2004). Prior studies pertaining to IFRS: CFA and financial performance are "mixed and inconclusive." Some studies (Horonsky & Houghton, 2011; Nwaiwu & Ogbonna, 2016) support "anecdotal" evidence. Elsenhard (2009) which suggests that CFA are not only affected by financial performance, but also retain a strong "IFRS" identity.

The rest of this empirical paper is organised as follows: Section two provides a review of the related literature, theoretical framework, concepts and hypotheses. Section three discusses the research methodology and model specification. Section four presents the empirical results and discussion. Section five ends up the paper with summary, conclusion and recommendations.

Review of Related Literature.

Theoretical framework

Through there is no agreed theoretical base for research on cash flow accounting (Jensen & Meckling, 1976), a review of the literature indicates that several theoretical frameworks have been used to explain and analyze the association between cash flow accounting and firm financial performance. This section review agency theory and their applicability to the research question of this study. The agency theory is based on the relationship between the principal (owner) and the agent (manager). The separation of ownership from management in modern corporations provides the context for the function of the agency theory. Modern organizations have widely dispersed ownership, in the form of shareholders, who are not normally involved in the management of their companies.

In these instances an agent is appointed to mange the daily operations of the company. This distinction between ownership and control creates the potential for conflicts of interests between agency and principals, which result in costs associated with resolving these conflicts (Jensen & Meckling, 1976 and Eisenhardt, 1989). The most important basis of agency theory is that the managers are usually motivated by their own personal gains and work to exploit their own personal interests rather than considering shareholders? Interests and maximizing shareholder value. For example, managers may be attracted to buying Larish offices, company cars and other extravagant items, since the cost is borne by the owners.

Thus, the key predicament indicated by agency theory is ensuring that managers pursue the interests of shareholders and not only their own interests. Eisenhardt (2009) explains that agency problems commence when "The goals of the principal and agent conflict and it is difficult and costly for the principal to verify what the agent is actually doing". Controversy occurs because principals are unable to monitor the performance of agents (Jensen & Meckling, 1976). This pursuit of self-interest increases costs to the firm, which could include the costs of the formation of contracts, loss due to decisions being taken by the agents and the costs of observing and controlling the actions of the agents. Leuz et al (2003) assert that the effects of such behaviour ultimately reflect in the company financial performance.

Consequently, management has an incentive to manage the company's reported earnings in order to meet or beat earnings targets and, thus, to receive any bonuses that may be tied to the company's performance – related pay. This creates an information asymmetry in that managers can exercise the discretion they have an accruals, which in turn reduce the relevance and reliability of reported income, and the whole financial statements. Datina & Largcy, 1985; Arthur, 2010) argued that when management provides inaccurate financial reporting information, it introduces firm performance as a type of agency cost.

As a result, managers cannot be fully trusted. Therefore, strict monitoring of managers by the principals or their representatives, such as the firm's board, is seen as fundamental to protecting shareholders interest from being compromised when managers maximize their self interest at the expense of the organization. In order to effectively limit agency costs caused by the separation of owners and control, Fama & Jensen (1983) proper that firms need a system that can separate decision management from decision control. This would limit agency costs by controlling the power of management and ensuring the proper consideration of shareholders interests.

International Classification of Cash Flow Accounting

CFA standards generally recommend that CFs be categorized into three activity types: operating, financing and investing activities. The operating activities show the results of the cash inflows and outflow related to the fundamental operations of the basic line (or lines) or business in which the company operates (Bandyopadhyay, et al, 2010); cash flows from investing activities show the CFs associated with purchases and sales of non-current assets (Barth et al, 2010); cash flows from financing are the flows related to the financing of other activities of the firm (Clinch et al, 2002; Broome, 2004). Standard setters presumably believe that such categorization enhances comparability and the evaluation of relationships among these categories. Presumably classified CFs would be more helpful to users.

> Classification in financial statements facilitates analysis by grouping items with essentially similar characteristics and separating items with essentially different characteristics. Analysis aimed at objectives such as predicting amounts, timing, and uncertainty of future cash flows requires financial information segregated into reasonably homogeneous groups. (FASB, 1984, para. 20).

Within the operating activities classification, regulatory authorities have identified two methods of presenting cash flow accounting: direct or indirect. Both methods, whilst resulting in the same figure for net operating cash flows, have significant differences. The direct method reports in a straight forward manner how much cash and cash equivalents came in from customer collections and how much went out in the form of payments to suppliers, employees, and other outside entities for goods and services. The direct method approximates a summarized cash book. (Nwaiwu, 2014). The indirect method does not follow the trading or operational sequence but instead arrives at the net cash flow from operations by working backwards from net profit. Net profit or loss is adjusted for (1) the effect of non-cash revenue and expenses (e.g. depreciation) and changes in non-cash working capital (2) any cash receipts and payments unrelated to the reporting year and (3)items associated with investing and financing activities that were in corporate in the profit or loss figure.

Given these two methods, there are three options open to a regulatory authority for presenting operating cash flows (OCFs): (1) to mandate the direct method only, with or without the need to reconcile the net cash flow from operations with the net profit figure: (2) to permit choice, namely the use of either the direct (with or without reconciliation) or the indirect method; or (3) to mandate the indirect method, with or without direct method proof of operating cash flow.

The Australian, New Zealand, Thailand, Nigeria Standards mandate the direct method with reconciliation, whereas others regulators allow a choice between the direct and indirect methods provided they adhere to the consistency principle of not changing that choice without providing a reason for the change. This difference in OCF presentation between Jurisdictions is relevant in this era of harmonization of accounting standards; both the European union parliament and the

Australian financial reporting council have decided to set 1 January, 2005 as the target date for the adoption of standard produced by the IASB, underlying this policy of verbatim adoption of international accounting standards, presumably is the belief that adoption of standards issued by the IASB would lead to an improvement in financial reporting and the efficiency of the capital markets. However, in the case of Australia, Nigeria, as the international standard on CFSs (IAS, 7) differs from it counterpart by allowing operating cash flows to be presented by the direct or indirect method, it could be argued that the Australian CF Standard (which mandates the direct method) is in fact preferable to IAS 7. Recently some Australian accounting standards have been criticized as being "deplorable". Yet, at least in the case of cash flow accounting reporting, may be the IASB should review its standard and accept the lead of the international standard setter, by not permitting choice of method: surely an intended consequence of harmonization is to narrow areas of difference and variety of accounting practice.

The internationalization of Nigerian and Australian CFs standard began in Sept. 1994 and May 2003, when the NASB and AASB issued Exposure Draft (ED), requesting for comment on IAS 7 cash flow statements the ED reproduces IAS 7 verbatim, but in the preface proposes amendments which essentially retain the features of the current CFs standard. For example "The board is of the view that equivalent of IAS 7 should present the cash flow statement using the direct method". It goes on to explain "That a standard that permits only one of the two options allowed in an IFRS is fully compliant with that IFRS".

The AASBs and NASB's preference for the current cash flow standard suggests that it believes that it is quite acceptable for the Australian versions of IFRSs to be more restrictive than the equivalent IFRSs. In other case, it has been flagged that Nigerian and some other countries that adopted cash flow accounting will be pleading certain exemptions from IFRSs in areas as intangibles and derivatives (Petersen, 2009). Surely such proposals defeat the objective of adopting IFRSs, which presumably is to internationalize Nigerian capital markets.

Qualitative Characteristics of Financial Statements

Qualitative characteristics are the attributes that make the information in the financial statements useful to users. The four qualitative characteristics are understandability, relevance, reliability and comparability (Wingard & Becker, 2001). The information provided in financial statements should be readily understood by the users. It is also assumed that the users have a reasonable knowledge of business, economic and accounting activities as well as willingness to study the information with reasonable diligence.

Information is of relevance when it influences the economic decisions of the users by helping them evaluate past, present and future events, or confirm or correct their past evaluations. The relevance of information is also affected by its nature and materiality. For information to be material, its omission or misstatement could be seen to influence the economic decisions of financial statement users.

For information to be regarded as reliable it has to be free from material errors and bias; and users can rely on it representing what is reasonably expected. The reliability of information is influenced by the following considerations faithful representation (Lee, 2002; Chung, 2005), substance over form (Berglof & PaJuste, 2005), neutrality (Chung et al 2005). The financial statements of an entity must be comparable over time in order to identify trends in its financial position and performance e. the comparability of financial statements may be enhanced by the:

- Consistency of an accounting treatment of similar/like transactions and other events.
- Disclosure of accounting policies applied by an entity.
- Disclosure of changes in accounting policies and their effect; and
- Presentation of comparative figures of the proceeding periods.

Constraints may be found in the relevance and reliability of information. These are identified as: Timeliness of information; Balance between benefit and the cost of information supplied; and Trade-off between qualitative characteristics of information, if this occurs, the main objectives of financial statements should be maintained. Financial statements are described as presenting a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an entity, such financial statements are the results of the application of principal qualitative characteristics and of appropriate accounting standards.

Empirical Studies

Recent years have shown a great deal of interest in CFA and financial performance in the academic community. This interest was characterized by an initial emphasis on normative research which has been followed by more empirical research. Major normative contributions to CFA often suggest templates for CFA adoption/practices such as competitor accounting and competitive position monitoring (Eisenhardt, 1989; Leuz, 2003; Brahmasren et al, 2004) CFA(Jensen, 1993; Broome, 2004; Nwaiwu, 2014) Operating activities(Bamber&Cheon, 2005) Financing activities (Behchuak & Cohen, 2005) and the investing activities(Board et al, 2009).

Although this normative work has made a contribution to CFA. A good number of studies were attempted at identifying the influence of CFA on corporate profitability using PBT and operating profit in different countries around the world. Most of the studies related to this issue were done in the context of the developed countries in the world. Very few studies were done relating to the developing countries and especially in the context of Nigeria. Basically, the conclusion reached by various authors (Watts, 1977; Herbert & Tsegba, 2011) on their studies of the hypotheses of cash flow accounting of the firm and its profitability is that the hypotheses does not perform uniformly all the time, and that it cannot, therefore, be viewed as having general validity. The study of these authors(Espstein, 2002; Yap, 2006) did not however, provide definitive evidence on the validity of the hypothesis, (cash flow accounting and corporate profitability) they lack consensus on their major findings and methodology and data were subjected to several short comings.

Matityahn (2000) in his study did an evaluation of the hypothesis against new data within an improved analytical framework. Matityahn (2000) who carried out a re-evaluation of the hypothesis of the influence between cash flow activities on PBT and operating profit of 30 quoted companies in Thailand, concluded as in the general opinion of most of the authors that the hypothesis did not perform uniformly in all industries tested. Therefore, it cannot be viewed as having general validity. Best et al (2000) have suggested that results from studies on the influence between CFA on Operating Profit and PBT are not only inclusive but vary from country to another. Humphrey et al (2000) examined the CFA on Corporate profitability of companies in the UK through a series of unstructured interviews, questionnaire and mini case studies. The studies revealed consistent with prior studies, they find mixed results for influence between CFA and corporate profitability. However, they divide their sample into three clusters that has weak cash flow levels, which represents approximately 8.5% of total sample, exhibits a statistically significant positive relationship between investing activities and PBT. This cluster of firms has lower percentage of operating activities. This result implies that the provision of CF's is a problem only for a small subset of firms that appear to have weak cash flows resulting from management control. Therefore, it is important to understand the role of cash flow in either mitigating or exacerbating the relation between CFA and corporate liquidity.

Frankel et al (2002) examine the relationship between cash flow activities and corporate liquidity (Turnover & working capital). Their sample consists of data collected from 3,074 proxy statements filed with the SEC between February 5, 2001 and June 15, 2001. They develop three measurements of ratios. The first is the ratio of financial performance to turnover, the measure of working capital, both of which are measured as percentile ranks for each of a specific company. The third measure is the ratio of working capital of a specific firm. Their finding real significant positive relationship between two of the three proxies of corporate liquidity and cash flow activities. Their results are robust to alternative measures of financial performance.

Singh et al (2003) challenge the findings of Frankel et al (2002) and conducted the same three sets of empirical tests of explore if Frankel et al (2003) results are sensitive to research design choices. But there findings are inconclusive. In this investigation we analyze not only the association between the two construct CFA and firm financial performance, but also take the issue of the variables of CFA (Operating, Financing and Investing activities) and that financial performance (Corporate Profitability, i.e. Operating Profit and Profit Before Tax). Even though rich empirical literature exists focusing on corporate profitability and CFA (Datina & Largcy, 1985), few of these studies have included cash flow accounting in their analyses. An exception is Dimitrios et al (2008), which identified CFA such as Operating, Financing and Investing. The major reason why the presence of financial performance is taken into account in this study is due to the significance of investors in quoted companies in Nigeria.

Measuring Firm Performance

The key performance indicators chosen to measure performance of companies depend on the interest and justification of the analyst. Performance indicators normally include profitability, efficiency, leverage and liquidity. According to Bourne & Franco (2003) a good performance measure must have the fundamental characteristic of being a broad based measure, structured understanding of strategy, provide feed back and take action on results. This empirical study focus on those measures that is strategically important for the success of the company. In that direction, the study would measure the financial performance of the companies by looking at profitability (Operating Profit and Profit Before Tax).

Literally profitability is the relative tendencies of profit making in alternative courses of action or decision (Ilaboya, 2005). It is important to differentiate between profits and profitability. While profitability is a relative measure showing a more profitability alternative, profit is an absolute measure of the overall amount of net income earned by a transaction (Sondhi et al, 1988; Brahmasrene et al, 2004). The importance of the distinction lies in the fact that profitability can be judged from the net return as well as the cost saving of alternative transaction. In the concept of corporate profitability, it is not enough that a company knows that it is making as much profit as it could. While theoretical studies aim at maximization of profit. It is accepted that perfection is rather impossible to attain in practice and this often requires were practical test. These test can be regarded as the test of profitability and consist of test of possible cost reduction and net return improvement through either increase in sales of production or production mix. Such test includes inter – firm comparisons and a more detailed audit into the cost and revenue implications with the following concept and techniques, profit, cost data analysis the concept of added value and contribution.

The accounting concept of profit is one of net business income normally resulting from the sales transactions of the organizations. The sales transaction of any period brings new assets into the business enterprises(Berglof & PoJuste, 2005). Profit result (if these assets are in excess resulting) from the societal over evaluation of the assets in the market and marketing bargains. The operating profits a company earns are the reward from many activities carried out within the company. The profit to an enterprise is a necessity of survival from which ranges are taken care of investors expects their returns, expansion take place etc from the corporate profitability of affirm, the workers determine their employment livelihood and their income because to them as workers, profit is somebody else's income(Bush et al, 2000; Titman & Wessels, 2008). The enterprise must operate at an adequate profit. This is the first social responsibility as well as its duty toward itself and its workers. Management must, therefore, find some ways to get the workers to accept profit as necessary, if not as beneficial and in his own interests.

Research Questions and Hypotheses

There has been considerable research on the economic effects of cash flow accounting in the developed countries, there has been relatively little or no systematic attempt at examining the influence of cash flow accounting on profitability in developing countries, sub-Saharan Africa, in particular. Although Nigeria embraced cash flow accounting in September 1994 (along with many other countries), little is known about the determinants and consequences of CFA adoption. It still remains an issue of empirical concern why Nigeria and over 120 countries have quickly adopted CFA. While others have partially adopted them and still others continue to resist. (Herbert & Tsegba, 2013). Put differently, how and why did Nigerian embrace CFA without invoking socio-economic awareness, both from pedagogic and professional development point of view? Specifically, the study seeks to provide answers to the following research questions (RQ):

Rq 1: To what extent does a cash flow activity influence the profitability of quoted companies in Nigeria?

Research Question 1 (Rq 1) gives rise to the following two hypotheses.

H_{01}: Cash flow activities do not have significant influence on Profit Before Tax of quoted companies in Nigeria.

H_{02}: There is no significant relationship between cash flow activities and operating profit of quoted companies in Nigeria.

METHODOLOGY

The rationale for a particular research strategy is grounded in the core assumptions regarding ontology human nature and epistemology (Watts, 1977; Watts & Zimmerman, 1986). The assumptions provide a rationale as to why research should be conducted in a particular way and how the strategy can be implemented in practice (Yap, 2006). The present study seeks to see and study the social world from the perspective of organizational response to environmental change and the development in the use of control system in accordance with organizational context. In this sense, organizations are viewed as socially construct systems of reality where actors develop or create their realities, not only through their own creative activity, but through common experience and interaction with others. (Datina & Largcy, 1985; Cornell & Apostolon, 1992).

Numerous studies in the literature have investigated the relationship between cash flow accounting and financial performance. Some of these studies are conducted as surveys (Watts & Zimmerman, 1986), while others are performed as empirical analysis, which enhances the combination of time – series and cross-sectional observations, consistent with the works of Poatibandla (2006), Omran, et al (2005), and Sueyoshi et al (2010). The general format of the panel data model can be expressed as:

$$Y_{it} = \alpha + B_k X_{k,\ i,\ t} + U_{1-t}$$

Whereby the dimension of cross-sectional units is represented by $_i$ and that of time – series is represented by $_t$. Y_{it} denotes the performance measure, which is the dependent variable of the model of the model; B_k represents the parameters to be estimated with $_k = _{1,2}$ and so on showing the independent variables; U_{it} represents the stochastic error term.

Multiple Regression Analysis (MRA) is utilized based on it continuity. The MRA is a non parametric test used to compare three or more samples. As in this study, it is used to test the null hypotheses that all populations have identified distribution functions against the alternative hypothesis that at least two of the samples differ only with respect to location. The SPSS (Statistical Package for Social Science) version 20.0 was used to analyze the data and test the hypotheses.

RESULTS AND DISCUSSIONS

Table 1 – 2 shows the two categories of firm financial performance as it relates to quoted firms from 2006-2010.

H_{01}: Cash flow accounting (CFA) does not significantly influence operating profit of quoted companies in Nigeria.

Table 1. Effect of Cash Flow Activities (CFA) on Operating Profit

Variables/Test Statistics	Linear	Exponential	Semi-log	Double log
Constant	1.725E** (1.729)	21.188** (80.099)	-1.069E 11*** (-3.301)	10.659*** (3.785)
Opea	1.424** (7.184)	1.0911E-10*** (3.634)	3.309E9** (2.505)	.248** (2.159)
Fina	-1.012*** (-4.890)	-1.355E-10** (-2.221)	2.274E8* (.079)	.024* (0.96)
Inva	-.192* (-1.492)	-3.6310-11* (-.848)	1.888 E 9* (.721)	.253* (1.111)
R	.974	.743	.661	694
r^2	.948	.552	.437	481
F – ratio	121.106***	8.229***	5.172***	6.181***

Source: Computed from panel data 2006-2010.
N/B: *** = Significant at 1%, ** = Significant at 5% and * = significant at 10% and above. t. value is shown in parenthesis.

A test was carried out in the four functional forms to determine whether CFA provide positive or negative influence on operating profit over the period. In terms of the number of significant variables and the statistical values of the correlations coefficients (r), coefficient of determination (r^2) and f-ratio, the linear function yield the best fit and is accordingly used in our discussion. The linear form produced a correlation coefficient (r) of .974 indicating a strong relationship between cash flows accounting and operating profit. Coefficient of determination (r^2) of .948, the investigation evidenced that about 94.8% of changes in operating profit is attributable to variations in operating, investing, and financing activities. F – ratio of 121.106 was significant at 1% level. Among the three variables only financing activities are significant at 1% level, operating activities significant at 5% level, while investing activities is significant at 10% level. We therefore reject null hypothesis (H_0) and conclude that cash flow accounting has significant influence on operating profit. Another study that has the same findings regarding this variable is that of Epstein (2002); Nwaiwu(2014). Our findings also demonstrate the positive and significant influence between CFA and operating profit, meaning that as firms become more capital intensive, their financial performance decreases, which can be attributed to the high cost of capital in Nigeria during the period analyzed.

H_{02}: Profit Before Tax (PBT) is not significantly influence by CFA of quoted companies in Nigeria. In testing the effect of CFA on PBT, the result obtained is presented in the table below:

Table 2. Effect of Cash Flow Activities (CFA) on Profit Before Tax (PBT).

Variables/Test Statistics	Linear	Exponential	Semi-log	Double log
Constant	1.606 E9* (1.665)	20.870*** (64.100)	-3.658E 10* (-2.165)	9.196*** (3.333)
Opea	1.340*** (6.988)	2.146E – 10** (3.317)	2.270E*** (3.295)	.418*** (3.717)
Fina	-.890*** (-4.000)	-1.376E.10* (-1.833)	-5.965E 5** (-.396)	-.140* (-.568)
Inva	-.297** (-1.902)	-5.226E-11* (-992)	3.058E 8** 1.224)	.301* (1.348)
R	.899	.664	.630	.767
r^2	.805	.441	.397	.589
F – ratio	28.037***	5.244***	4.397***	9.555***

Source: Computed from panel data 2006-2010.
N/B: *** = Significant at 1%, ** = Significant at 5% and * = significant at 10% and above. t. value is shown in parenthesis..

Table 2 shows test results of the influence of cash flow accounting on Profit Before Tax in four functional forms. Base on the number of significant factors and the statistical values of the coefficient correlations (r), of .899 coefficient of determination (r^2) of .805 and the f-ratio 28.037. The linear function yields the line of best fit and is accordingly used in our discussion. The linear form produced a correlation coefficient (r) of .899 indicating a strong relationship between CFA and PBT with an (r^2) of .805. The study explains 80.5% of the changes in PBT. Only two of the three components of CFA (Fina & Inva) exert significant positive effect on PBT, hence we accept the null hypothesis and conclude that CFA significant affect the PBT of quoted companies in Nigeria. The findings is inconsistent with previous studies by Krause and Murdoch(2010); Finger (2004), who found a negative causal link between Operating, Financing Activities on Profit Before Tax of quoted in Thailand. This result is coming against the back drop of Bomber & Cheon 2005.

CONCLUDING REMARKS AND RECOMMENDATIONS

This investigation attempts to add to the literature by providing evidence from an emerging market on the influence of cash flow accounting on corporate profitability. One of these distinguishing features of this study is development of additional models to consider the influence among CFA on Operating Profit and Profit Before Tax. Furthermore, the use of panel data analysis enhances the results by empirically investigating the issue from both a cross-sectional and a time series dimension.

The main motivation of this study is the lack of empirical evidence regarding issue of cash flow accounting and financial performance for listed companies in Nigeria. Therefore, the results of our studies are critical in terms of providing insight into the influence of CFA on financial performance, which is a topic receiving considerable attention after the recent financial reporting scandals.

The findings of the study support the argument that CFA enhance firm financial performance during the observation period after controlling for firm size and liquidity. As a second step, five years analyses are conducted and CFA are found to outperform in some companies as a result good management and effort of good internal control system.

Furthermore, the effect of CFA corporate profitability is evaluated, with a separation between firms listed on the CFA index and those that are not. As a result of the analysis, CFS are found to improve financial performance of all firms, whereby the influence on firms listed on the index is more than those not listed on the index.

Given the significant positive effect of CFA on firm financial performance in Nigeria, policy initiatives that prospectively encourage inward Foreign Direct Investment (FDI) should advisedly be aggressively pursued by government. The study also recommends further investigations into the influence of CFA and firm financial performance, using larger sample size, covering more years, and including particularly the banking sector that has witnessed major reforms since 2005 and plays a critical role in the economic development of Nigeria. The accounting preparers and standard setters should enhance the quality of corporate reporting and earnings because it received the attention of most investors.

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