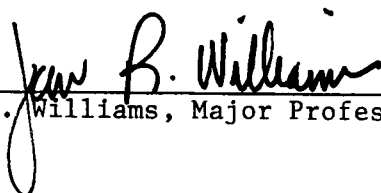
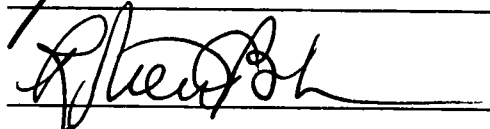
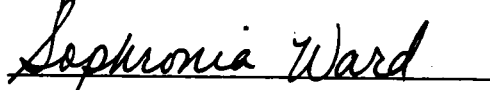


To the Graduate Council:

I am submitting herewith a dissertation written by David Barthe Vicknair entitled "An Investigation of Users' Perceptions Concerning Corporate Funds Flow Information." I have examined the final copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Business Administration.


Jan R. Williams, Major Professor

We have read this dissertation
and recommend its acceptance:

Accepted for the Council:


Vice Chancellor
Graduate Studies and Research

AN INVESTIGATION OF USERS'
PERCEPTIONS CONCERNING
CORPORATE FUNDS FLOW
INFORMATION

A Dissertation
Presented for the
Doctor of Business Administration
Degree
The University of Tennessee, Knoxville

David Barthe Vicknair

August 1983

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ABSTRACT

The funds statement has been a frequent and often controversial topic of discussion in the financial literature since the early 1920's. This discussion reached a critical focus with the issuance of APB Opinion 19 in 1971. As the first authoritative pronouncement of any type to require presentation of a funds statement in the annual reports of business enterprises, Opinion 19 became the objective of intense scrutiny by the financial and academic community during the decade following its issuance. By the end of the decade the criticism directed at Opinion 19 resulted in a re-examination of the funds-reporting topic by the FASB.

The principal objective of this study was to provide current empirical data on the preferences of selected investors and creditors regarding the usefulness of various funds-reporting alternatives. The study's data were collected by means of a pretested mail questionnaire which was administered to a sample of chartered financial analysts and chief commercial loan officers. Nonparametric statistical techniques were employed in the data analysis.

Since the responses from chartered financial analysts indicated a nonresponse bias, the study's conclusions were derived exclusively from analysis of the returns of chief commercial loan officers. The study indicates that the provisions of APB Opinion 19 generally reflect the most useful methods of disclosing funds flows to chief commercial loan officers and that the usefulness of funds-reporting alternatives is not dependent on the particular funds concept selected by chief commercial loan officers as the underlying basis of the statement.

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CHAPTER I

INTRODUCTION

I. SETTING OF THE STUDY

The balance sheet and income statement of a business enterprise provide an indication of the financial status of the enterprise at a particular point in time and the results of the enterprise's profit directed activities during the accounting period. Accountants and users of accounting information have often expressed concern over the limitations of these two financial statements and generally agree that a third major financial report, or funds statement, provides useful information that the balance sheet and income statement either do not provide or provide only indirectly about the flow of funds and changes in financial position during the period.¹

The funds statement has been a frequent topic of discussion in the financial literature since the early 1920's. However, it was not until the 1950's that interest in the statement had developed to the point where its role in financial reporting warranted serious attention by the accounting profession (Brownlee, 1975).

¹ During development of the funds statement various titles have been used in referring to the statement including: (1) the statement of sources and uses of funds, (2) the source and application of funds statement, and (3) the statement of resources provided and applied. More recently, in 1971, the provisions of Accounting Principles Board Opinion 19 have stated that the preferred title of the statement be statement of changes in financial position. To simplify reference to the statement, the generic term "funds statement" is used throughout this study.

In 1961 the American Institute of Certified Public Accountants (AICPA) published Accounting Research Study No. 2, Cash Flow Analysis and the Funds Statement. Among the study's major recommendations were that the funds statement be considered a major financial disclosure and included in annual reports to shareholders.

Two years later, the Accounting Principles Board (APB) issued Opinion No. 3, The Statement of Source and Application of Funds to provide authoritative guidelines for preparing the statement for external use. Opinion 3 was the first accounting pronouncement of any type pertaining to the funds statement; however, its provisions left considerable room for interpretation. Moreover, the opinion encouraged, but did not require the presentation of a funds statement in annual reports. Despite these apparent deficiencies Opinion 3 contributed to the increased availability of external funds statements and, ultimately, to further consideration of the statement as a major financial report.

The provisions of Opinion 3 remained in effect until March 1971 when they were superseded by Opinion No. 19, Reporting Changes in Financial Position. The provisions of Opinion 19 were not substantially different from those of Opinion 3, with one very important exception--Opinion 19 elevated the funds statement to the status of a major financial statement by requiring a funds statement be presented as an integral part of financial reports purporting to show financial position and results of operations.

During the decade following its issuance Opinion 19 generated considerable discussion in the financial literature. Although the opinion was generally viewed as a positive step by the APB to provide

external users with additional useful information, a number of writers raised serious objections to the opinion's recommendations and/or their underlying basis (Kemp, 1971), (Nurnberg, 1972), (Heath, 1978). In addition, the AICPA (1978) and National Association of Accountants (NAA, 1979) published major research monographs critical of the opinion and urging revision of its provisions.

By the end of the decade the criticism directed at Opinion 19 resulted in a re-examination of the funds-reporting topic by the Financial Accounting Standards Board (FASB). In December 1980 the FASB released the Discussion Memorandum, Analysis of Issues Relating to Reporting Funds Flows, Liquidity, and Financial Flexibility to solicit comments from the public. Chapters 2-7 of the Discussion Memorandum address a comprehensive list of reporting issues and disclosure alternatives concerning both primary and supplemental funds flow disclosures. Following an extensive review of this document, it is apparent that the FASB is seriously contemplating revision of funds flow reporting as prescribed by Opinion 19.

II. RESEARCH PROBLEM

Despite more than a half century of development in the accounting literature, including two authoritative pronouncements, no apparent consensus exists regarding the most useful form and content of the funds statement. Commenting on the statement's development through Opinion 19, Brownlee observed critically:

Thus, while it may be that a statement summarizing changes in financial position of a firm is highly useful to external parties and that these users will find both the form and

content of such a statement as prescribed by Opinion No. 19 to be the most desirable of all possible alternatives, such conclusions do not appear to be based upon any significant amount of current research data. (1975, p. 5)

This observation appears to be appropriate for the post-Opinion 19 decade as well. Although several empirical studies pertaining to the funds statement were conducted during the decade, these studies were primarily descriptive in nature (Spiller and Virgil, 1974), (Beams and Strawser, 1975), (Brownlee, 1975).

Thus, a review of the literature on funds statements reveals that the underlying basis of the statement is deeply rooted in analytic thought. In 1977 the American Accounting Association Committee on Concepts and Standards considered the role of analytic techniques in the process of accounting theory closure:

. . . theory choices are virtually dependent upon the experiential set and preferences of the observer. Consequently, rigorous analytic techniques serve only a limited role in this area as an initial screening device, that is, as a means for identifying and eliminating proposals that are logically inconsistent or erroneous. Proposals that survive this analytic screen must gain acceptance on some other basis - their explanatory or predictive power, ability to resolve existing anomalies, or conformity to prevailing social preferences. Clearly research plays an important role in this post-screening choice process too. However, dispassionate logical analysis is only a necessary, not a sufficient, condition for eventual theory acceptance. (p. 50)

The Committee further observed:

Competing theories merely provide a basis for forming opinions on what must remain inherently subjective judgements. While it is true that consensus will frequently develop on certain points, usually this consensus only narrows the range of disagreement; it often does not resolve the basic issue that gives rise to the underlying problem. That is, consensus about peripheral improvements may occasionally emanate from applying a theory, but the underlying choice issues continue to be disputatious. (p. 51)

Several observations are apparent from the preceding discussion. First, it seems unlikely that the FASB's current analytic based funds flow project will achieve a higher degree of success than did Opinion 3 and Opinion 19 of its predecessor body, the APB. Secondly, future funds flow projects appear destined to a similar fate unless accounting researchers adopt a more balanced approach to the funds statement which includes both rigorous empirical and analytic techniques.

III. OBJECTIVES OF THE STUDY

The FASB (1978, par. 34) in identifying its objectives of financial reporting has designated investors and creditors as the primary users of financial information. Accordingly, the development of accounting and reporting standards pertaining to funds flow disclosures should be particularly responsive to the needs of these user groups. Unfortunately, few studies have addressed user preferences for alternative funds flow disclosures. Moreover, no studies have attempted to statistically measure or compare these preferences. Consequently, little is known about the needs of users in general for this information.

In light of the limited amount and usefulness of prior research, the primary objective of this study is to provide current empirical research data on the preferences of selected investors and creditors concerning the usefulness of alternative methods of disclosing funds flows. Specifically, this study is intended to:

1. Determine the most useful alternative methods of disclosing funds flows to investors and creditors.

2. Determine whether the usefulness (to investors and creditors) of funds disclosure alternatives is dependent on the concept of funds selected as the underlying basis of the funds statement, i.e., cash, cash plus short-term securities, net quick assets and working capital.
3. Determine whether funds disclosure alternatives differ in degree of usefulness to investors and creditors.

IV. CONTRIBUTIONS OF THE STUDY

The principal contributions of this study stem from its empirical emphasis. Prior studies reflecting user preferences for funds disclosures have based their conclusions primarily on descriptive techniques. This study represents an initial effort to statistically measure and compare user preferences concerning funds flow disclosures and, thus, contributes to a greater understanding of user needs concerning these disclosures. In addition, since this study parallels the FASB's funds flow discussions, findings from this study may prove useful to the FASB in its deliberations.

This study also appears to be an initial effort to empirically investigate the usefulness of supplemental funds flow disclosures. The principal source of issues pertaining to such disclosures is the 1980 FASB Discussion Memorandum (Chapters 2 and 7). No prior research was located which has addressed these issues insofar as they relate to funds flow information.

A final contribution of the study is made by the literature review presented in Chapter II. The literature review continues and expands

the historical perspective on funds-reporting begun by previous writers by including the post-Opinion 19 decade of literature.

V. LIMITATIONS OF THE STUDY

This study is subject to the general limitations which are associated with a questionnaire methodology. The most serious of these potential limitations concerns nonresponse bias (Oppenheim, 1966). Non-response bias in this study is examined in Chapter III.

An implicit assumption underlying the use of a questionnaire methodology is that the groups surveyed possess a level of sophistication sufficient to evaluate the information content of the questionnaire. Although the sampling procedures (discussed in Chapter II) assured that each investor (chartered financial analyst) selected had met certain minimum education, experience, and examination standards, similar control over the qualifications of creditors (chief commercial loan officers) was not feasible. However, it is believed that the high position attained by these users provides a reasonable degree of protection from this potential limitation.

Financial statement users have been utilizing the particular form of funds statement prescribed by Opinion 19 for over a decade. As a result, another potential limitation concerns the possible functional fixation of subjects on current funds-reporting practices. Functional fixation by various external users has been observed by Abdel Khalik and Keller (1979). Functional fixation would pose a problem to this study if subjects were unable to adapt their understanding of the funds statement as prescribed by Opinion 19 in response to changes in the

statement's underlying form and content suggested in the questionnaire. However, due to the extensive criticism of Opinion 19 many respondents were expected to have developed preferences which are not fixated on current practice.

VII. ORGANIZATION OF THE STUDY

The remainder of this study is organized as follows. Chapter II presents a review of relevant literature from 1908 to 1981. Detailed literature reviews of the period preceding Opinion 19 are found in Rosen (1966), Rosen and DeCoster (1969), and Brownlee (1975). Therefore, Chapter II includes a brief overview of the literature prior to Opinion 19, drawing upon these sources. A more detailed review of the post-Opinion 19 decade is presented in the chapter.

Chapter III presents a detailed discussion of the research methodology, including design and implementation of the questionnaire, statistical approach and an investigation of nonresponse bias. Chapter IV includes presentation, analysis, and interpretation of the research results. Chapter V, the study's final chapter, includes a summary, conclusions of the study, and suggestions for further research.

CHAPTER II

THE FUNDS STATEMENT--ITS DEVELOPMENT

FROM 1908 TO 1981

The purpose of this chapter is to present a review of the accounting literature pertaining to funds statements. The chapter focuses on two eras in the statement's development: (1) the period prior to 1971 and (2) the period from 1971 to 1981. Detailed reviews of the literature prior to 1971 appear in Rosen (1966), Rosen and DeCoster (1969), and Brownlee (1975). Therefore, the chapter presents only an overview of this period, drawing heavily upon the aforementioned sources. A more detailed review is made of the literature from 1971 to 1981, focusing on some of the major individuals, organizations, and events that contributed toward the continued development of the funds statement during this period.

I. DEVELOPMENT OF THE FUNDS STATEMENT TO 1971--AN OVERVIEW

The precise origin of the funds statement remains a mystery to accounting historians. However, the statement's introduction into the accounting literature has frequently been attributed to William M. Cole whose 1908 accounting textbook was apparently the first such publication to include a discussion of funds statements (Brownlee, 1975, p. 26).

For approximately a decade following Cole's discussion, the funds statement attracted little genuine interest. However, during the 1920's discussion regarding the statement intensified. Writers of this period

were particularly preoccupied with mechanical aspects of the statement's preparation. This emphasis continued well into the following decade.

During the 1920s, and corresponding closely with the interest in mechanics, there also emerged an emphasis on funds statements detailing the causes of a change in working capital. The principal force behind this emerging emphasis appears to have been Herbert A. Finney. As editor of the Students' Department of the Journal of Accountancy during the period from 1920 to 1925, Finney was able to exert considerable influence on the Journal's vast readership of practitioners, academicians, and students (Rosen, 1966, pp. 50-54).

Finney's campaign on behalf of a working capital funds statement was apparently highly successful. By the end of the 1930s the working capital approach had clearly gained the widest acceptance as a means of describing funds flows (Brownlee, p. 53). Moreover, Finney's influence on C.P.A. examiners and textbook writers ultimately resulted in the training of future practitioners in the mechanics of preparing a working capital funds statement, while limiting exposure to alternative approaches (Rosen, pp. 50-60).

During the decade of the 1940s alternatives to the working capital concept received renewed attention. The decade was also characterized by a transition in the development of the funds statement as the emphasis on mechanics waned and increased attention was focused on the statement's usefulness. Although most discussions concerning usefulness were general in nature and limited in scope, Brownlee observed:

By the end of the decade, interest in the funds statement had developed to the point where its potential as a useful financial statement was beginning to receive serious consideration. In fact, it was not too uncommon for a writer of this period to suggest that the funds statement should be treated on an equal basis with the balance sheet and income statement. (p. 83)

The emphasis on the usefulness aspect of the funds statement which had developed during the 1940s continued into the 1950s. As ideas that had previously appeared regarding the funds statement were expanded, refined, and further explained, the decade witnessed the beginning of a modest trend toward the increased availability of external funds statements (Brownlee, p. 81).² While there existed considerable diversity of opinion throughout the decade regarding the proper form and content of the funds statement, by the end of the period interest in the statement had developed to the point where its role in the financial reporting process warranted special attention by the accounting profession.

In 1959 the AICPA became actively involved in the development of the funds statement by authorizing Perry Mason to conduct a research study pertaining to the statement. The resulting research study, "Cash Flow" Analysis and the Funds Statement, was published in 1961.

The study included among its recommendations that the funds statement be treated as a major financial statement and included in the accountant's attest function, that it be based on the broad "all financial resources" concept of funds, and that the statement's structure

²Brownlee (1975, p. 82) presented a table adapted from Accounting Trends and Techniques (AICPA) indicating that of the 600 firms reviewed, 13 included a funds statement in their 1950 annual report; by 1960 this number had increased modestly to 31.

remain sufficiently flexible to allow the statement to disclose and emphasize the more important financial events of the period covered by the statement (Mason, 1961, p. 90). Mason further recommended in the study that the statement begin with the amount of funds provided from operations, with details of the calculation disclosed in a footnote in order to avoid giving the impression that intraentity transactions, such as depreciation expense, were sources of funds. Finally, Mason strongly encouraged presentation of both comparative and cumulative funds statements.

In 1963 the Accounting Principles Board issued Opinion No. 3, The Statement of Source and Application of Funds wherein the accounting profession was provided its first set of authoritative guidelines regarding the preparation and presentation of external funds statements. The provisions of Opinion 3 closely paralleled both the order and wording of Mason's conclusions and recommendations, with two notable exceptions--the statement's status and title. Although the usefulness of information contained in the funds statement was explicitly recognized in the introduction to the opinion, the Board nevertheless viewed the statement itself as supplemental disclosure. Therefore, the Board did not mandate its inclusion in annual reports, neither did it require the statement, if so included, to be covered by the report of the independent auditor. In addition, Mason's recommended title for the funds statement, "Summary of Financial Activities," was ignored in favor of titles, such as "Statement of Resources Provided and Applied" and "Statement of Source and Application of Funds."

Opinion 3 was generally well received by the financial community (Brownlee, p. 76). While the opinion's guidelines left considerable room for interpretation, its contribution was to further increase the availability of external funds statements and, ultimately, to warrant consideration of the funds statement as a major financial report.

In 1971 Opinion 3 was superceded by Opinion No. 19, Reporting Changes in Financial Position. Opinion 19 (par. 7) required, for the first time, that a statement summarizing changes in financial position be presented as a basic financial statement whenever financial statements purporting to present both financial position and results of operations were issued. According to Opinion 19 the objectives of a funds statement are:

. . . (1) to summarize the financing and investing activities of the entity, including the extent to which the enterprise has generated funds from operations during the period, and (2) to complete the disclosure of changes in financial position during the period. (par. 4)

Other important aspects of the opinion are included in the following excerpts from the pronouncement:

. . . the statement summarizing changes in financial position should be based on a broad concept embracing all changes in financial position and that the title should reflect this broad concept. The Board therefore recommends that the title be Statement of Changes in Financial Position. (par. 8)

. . . the Statement should prominently disclose working capital or cash provided from or used in operations for the period, and the Board believes that the disclosure is most informative if the effects of extraordinary items are reported separately from the effects of normal items. (par. 10)

. . . the Statement may take whatever form gives the most useful portrayal of the financing and investing activities and the changes in financial position of the reporting entity. (par. 11)

Whether or not working capital flow is presented in the statement, net changes in each element of working capital (as customarily defined) should be appropriately disclosed for at least the current period, either in the Statement or in a related tabulation. (par. 12)

The effects of other financing and investing activities should be individually disclosed. (par. 13)

The Board strongly recommends that isolated statistics of working capital or cash provided from operations, especially per-share amounts, not be presented in annual reports to shareholders. (par. 15)

Other than the elevated status accorded to the funds statement, the provisions of Opinion 19 were not substantially different from those of Opinion 3.³ Opinion 19 did, however, provide a more detailed discussion regarding the determination of funds provided by operations and presentation of sources and uses of funds other than funds provided by operations and changes in working capital items.

II. DEVELOPMENT OF THE FUNDS STATEMENT FROM 1971 TO 1981

Selected Writers and Their Views

A survey of the post-Opinion 19 decade reveals that numerous writers have criticized various aspects of the opinion and provided suggestions for improving funds-reporting practices. However, only six are included in this subsection of the chapter. These particular writers were selected because their views are better developed than those of many of their contemporaries and because they provide a representative

³For a detailed comparison of Opinion 19 and Opinion 3 see Patrick S. Kemp, "Reporting Changes in Financial Position--Interpretation and Evaluation," The New York Certified Public Accountant (August 1971), pp. 559-563.

impression of the critical atmosphere which evolved during the decade. The reader should not, however, conclude that these writers are representative of all the views which were articulated during the period.

Patrick S. Kemp. Kemp (1971) was one of the first writers to criticize Opinion 19. Although he regarded the opinion as a significant improvement over Opinion 3, he strongly challenged the calculation and presentation of funds provided by operations under the indirect method. The indirect method reconciles net income and operating funds flows by adjusting income or loss for elements recognized in determining that income or loss which did not use or provide funds during the period. Kemp felt that the indirect method failed to disclose clearly funds provided by operations in two ways: (1) it tended to represent the adjustment items as sources (or uses) of funds and (2) the method resulted in an incorrect figure being labeled "funds provided from operations" (p. 564). Kemp perceived the alternative direct method, which reports revenue that provided funds and deducts operating costs and expenses that required the outlay of funds during the period, as clearly superior to the indirect method for two reasons: (1) the direct method completely avoided possible misinterpretations concerning the adjustments to net income or loss required by the indirect method and (2) the direct method provided a direct calculation of funds provided from operations. Thus, Kemp felt that the direct method provided a clearer, more understandable starting point for the statement (p. 564).

Kemp regarded "sources" as a gross concept and the notion of a "net source" as contradictory. He observed that since both the direct and

indirect methods netted revenues and operating expenses, they were subject to his second criticism; neither yielded an amount which could be technically termed "funds from operations," but rather an amount more accurately described as "net funds from operations." In order to resolve these deficiencies, Kemp proposed a twofold solution:

First, we must recognize that revenues constitute the true source of funds from operations during an accounting period and that, conversely, the funds requiring expenses of the period are uses of funds, usually large and significant uses. . . . Second, the statement must be organized in such a way that revenues are presented under "sources of funds" as the funds provided by operations. The same approach would be applicable to the extraordinary items. (pp. 564-565)

Kemp believed that implementation of these two suggestions would improve the funds statement by disclosing both sources and uses of funds, by disclosing the true sources of funds from operations, and by avoiding potentially misleading adjustments.

Aubrey C. Roberts and David L. Gabhart. Roberts and Gabhart (1972) also suggested that revenues and operating expenses not be netted and that revenues be classified as sources of funds and operating expenses as applications of funds.⁴ They based their reasoning, however, on the belief that such a modification of the direct method might reveal useful information about the future of the firm.

According to these writers, the successful future of an enterprise depended heavily upon management's astute application of resources.

⁴Perry proposed a cash-based funds statement similar in several respects to that proposed by Roberts and Gabhart. See James E. Perry, "Statement of liquidity, financing, and investment activities . . . for the period ended . . . ," The National Public Accountant (October 1977), pp. 20-24.

Therefore, while revenues provided the principal source of funds into a business organization, the financial statement user should focus on the application of funds. Their reasoning in this regard is summarized in the following excerpt:

It has been generally assumed that both the sources and applications on the statement of funds are mere recitations of past events. As to sources of funds, such an assumption is reasonably valid; as to applications of funds, however, it may be observed upon closer examination that the transactions here are inherently related to the future of the firm rather than the past. (p. 55)

Roberts and Gabhart felt that the key to providing the financial statement user with the potential for reaching more informed conclusions about the future involved an expansion and reclassification of the applications of funds section. They suggested that expenses which are particularly concerned with the future of the firm, or at least having future overtones, should be extracted from the general category of operating expenses and detailed separately. In addition, they suggested that additions to plant should be specifically classified into expenditures to sustain present capacities, expenditures for additions to expand plant capacity, and expenditures for branching into other lines of products or endeavors (p. 56).

While no specific guidelines were established concerning these two suggestions, the following list, adapted from an example by the authors, illustrates their views regarding the appropriate level of categorization for the applications of funds section:⁵

⁵In the authors' example, items 3-7 were extracted from total "expenses requiring funds" to yield item 10. Also, the authors suggested that for items 1 and 2, for example, period expenses should be combined with like expenditures which were capitalized (p. 56).

1. Replace plant facilities
2. Expand plant capacity
3. Research new markets
4. Develop new markets
5. Build up inventory
6. Recruit personnel
7. Advertise products
8. Train management personnel
9. Develop dealer organizations
10. Manufacture and distribute products
11. Service and retire debt
12. Reward investors (p. 56)

In addition to their format recommendations Roberts and Gabhart advocated a change from the traditional working capital concept of funds to one focusing on changes in net monetary assets. They felt that inventories, because of their various valuation methods and committed nature, tended to disrupt the homogeneity of the traditional funds category (p. 57).

Perhaps an even more important reason underlying this preference by the authors may be inferred from their emphasis on applications of funds; once inventory was excluded from the definition of funds, an increase in inventory levels would be treated as an application of funds with possible information for users about the future operating level of the firm. Consistent with this view, the authors suggested that a decrease in the level of inventory would best be treated as a nonfund expense, as opposed to treatment as a source of funds.

Hugo Nurnberg. Nurnberg (1972) directly criticized the APB for not indicating why it preferred the indirect method, suggesting that the Board had simply chosen the most popular form used in practice, while ignoring the strong support for the direct method in the literature.

Like Kemp (1971), Nurnberg was particularly concerned both with the potential misleading nature of the adjustments to net income made under the indirect method and with the method's netting of operating funds flows. He noted that the conventional direct method, although less confusing and more informative than the indirect method, still resulted in the netting of operating funds flows, a practice which he considered conceptually invalid (p. 60).

In order to resolve this dilemma Nurnberg advocated the same modification of the direct method previously suggested by Kemp (1971) and Roberts and Gabhart (1972). However, unlike these other writers, he recognized that offsetting operating sources and uses was meaningful from an analytical viewpoint inasmuch as the normal operations of a business represent a coordinated group of activities that may be reported separately (p. 62). Thus, while Nurnberg favored a "modified" direct method, he also acknowledged the potential usefulness of offsetting operating funds flows.

Nurnberg was also highly critical of the APB for continuing to sanction different concepts of funds as equally acceptable alternatives. He again suggested that in choosing the working capital concept, the Board had simply drafted Opinion 19 to confirm to prevalent accounting practices. Regarding this criticism he noted:

. . . it is clear that only the working capital concept is defective. But in the interest of increasing interfirm comparability, only one of the three narrower concepts of funds should be sanctioned by the APB. (p. 65)

Of the three "narrower concepts" of funds referred to by Nurnberg, i.e., net monetary assets, cash and cash equivalent, and cash, he advocated use of the net monetary assets concept noting that:

The net monetary asset concept of funds coincides closely with the business concept of disposable funds freely available to management for any proper business purpose, and is more in accord with the function of inventories in a going concern (p. 64)

Finally, Nurnberg advocated the presentation of cash flow data, such as "cash flow per share," in the financial statements. However, he gave no reasons for supporting such disclosures other than by suggesting that cash flow data was perhaps useful to some decision makers.

Loyd C. Heath. Heath's (1978a) principal views concerning the funds statement were articulated in his accounting research monograph, Financial Reporting and the Evaluation of Solvency.⁶ His primary concern was that the funds statement required by Opinion 19 disclosed too many different types of information. As a result, he described the funds statements found in current practice as a "hodgepodge of miscellaneous information presented in a confusing and misleading way" (1978b, p. 94).

Heath believed that this problem was symptomatic of basic confusion concerning the explicit objectives of the funds statement stated in

⁶See also, Loyd C. Heath, "Lets Scrap the Funds Statement," Journal of Accountancy (October 1978), pp. 94-103.

Opinion 19, objectives he described as "unclear, misleading, and unattainable" (1978a, p. 103). He observed that the text of Opinion 19 suggested that the APB had several implicit reporting objectives in mind when it drafted the opinion. These objectives were concerned with reporting the effects of all business activities on several different measures of a company's financial position: (1) changes in some measure of cash or near-cash resources, (2) changes in capital structure, and (3) changes in long-term assets.

According to Heath confusion resulted when more than one of these measures were portrayed in a single funds statement. Therefore, in order to accomplish the implicit reporting objectives of Opinion 19, he recommended that three separate statements, one to satisfy each objective, were needed to replace the single statement currently in use: (1) a statement of cash receipts and payments, (2) a statement of financing activities, and (3) a statement of investing activities.

Heath noted that in recent years the increasing complexity of business activity, together with the level of inflation and refinements in the measurement of periodic income, had resulted in greater disparity between reported income of companies and cash provided by their profit directed activities (1978a, p. 110). He felt that the traditional funds statement balancing to changes in working capital was an ineffective means of calling attention to this disparity and that a statement of cash receipts and disbursements would be able to help users assess the difference between reported income and cash flows. Furthermore, he observed that the notion that current liabilities would be paid with current assets was an "old concept" and that credit analysis had shifted

from a concern with working capital adequacy to "dynamic analysis" of future cash flows.

Heath's proposed statement of cash receipts and payments (Figure 1) only disclosed business activities affecting cash. He favored the direct method as a means of deriving cash provided by operations, describing the indirect method as a set of "worksheet adjustments" rather than an explanation of how operating activities affected cash. Details of cash provided by operations, however, were shown on a separate supporting schedule rather than on the face of the statement. (See Figure 1.) Heath argued that this was necessary because:

Both the absolute magnitude of many of the cash receipts and payments from operations . . . tend to overshadow some of the other figures on the statement . . . which may be of greater significance to the financial statement user in estimating future cash receipts and payments (1978a, p. 124)

Heath's logic is questionable. The netting of operating sources and uses of cash may be supported, for example, when operations are viewed as a group of homogeneous activities.⁷ However, to net within the body of the funds statement the single most important source of cash in a going concern (operating revenues) with one of the most significant uses of cash (operating expenses) simply to prevent other nonoperating sources and uses from being diminished by comparison is inconsistent with this view. Heath's argument also appears inconsistent in view of his netting of cash inflows and outflows from debt financing activities. (See Figure 1.)

⁷See, for example, the previous discussion on Nurnberg (1972).

Example, Inc.

STATEMENT OF CASH RECEIPTS AND PAYMENTS
FOR YEAR ENDING DECEMBER 31, 1977

Cash balance 12/31/76		\$ 15,666
Sources of cash:		
Cash provided by operations (Schedule 1)	\$ 27,537	
Sale of marketable securities	3,062	
Sale of land, buildings, and equipment	12,793	
Net amount borrowed	31,092	
Received from issuance of common stock	<u>7,495</u>	<u>81,979</u>
Cash available		97,645
Uses of cash:		
Purchase of land, buildings, and equipment	62,119	
Payment of dividends	<u>13,558</u>	<u>75,677</u>
Cash balance 12/31/77		<u>\$ 21,968</u>

Schedule 1

Cash Provided by Operations

Cash collected from customers		\$783,545
Interest and dividends received		<u>1,417</u>
Total cash receipts from operations		784,962
Cash disbursements:		
For merchandise inventories	\$457,681	
For administrative and selling expenses	264,577	
For interest	6,941	
For other expenses	14,953	
For taxes	<u>13,273</u>	<u>757,425</u>
Cash provided by operations		<u>\$ 27,537</u>

Figure 1. Statement of Cash Receipts and Payments

Source: Loyd C. Health, Accounting Research Monograph No. 3, Financial Reporting and the Evaluation of Solvency (AICPA, 1978), p. 126.

Heath's statement of financing activities (Figure 2) was designed to fulfill the second implicit objective of Opinion 19, that of disclosing the effects of business activities on a company's capital structure. He defined capital structure in broad terms, including equity capital and both long and short-term financing liabilities. Excluded from the definition, however, were spontaneous liabilities arising out of, or incidental to a company's operating activities. Thus, his second statement showed both increases and decreases in each type of negotiated debt instrument and component of stockholders' equity. Heath specifically noted that this statement was concerned with changes in the total amount of capital, as well as changes within capital structure (1978a, p. 131).

The third and final statement proposed by Heath, the statement of investing activities (Figure 3), was designed to disclose all increases and decreases in a company's long-term investments regardless of how they were acquired or disposed of. His basic rationale for this statement was that long-term investments had special significance to financial statement users because they represent relatively inflexible long-term commitments (1978a, p. 134).

Heath summarized his views by stating that his proposal did not require significantly more information than Opinion 19 already required to be disclosed. He believed that his three statement structure was clear and understandable, and would contribute greatly to eliminating the confusion concerning the relationship between business activities, profits, and changes in financial position (1978a, p. 135).

Example, Inc.

STATEMENT OF FINANCING ACTIVITIES
FOR 1977

<u>Debt financing</u>	<u>Increase or (decrease)</u>
Notes payable to banks	
Borrowed	\$ 50,000
Repaid	<u>(16,908)</u>
Net amount borrowed	33,092
Amounts paid on mortgage payable	<u>(2,000)</u>
Net increase in debt financing	<u>\$ 31,092</u>
 <u>Equity financing</u>	
Convertible preferred	
Conversion of 300 shares \$100 par value 5% convertible preferred for 1,500 shares \$10 par value common stock	\$ (30,000)
Common stock and capital in excess of par value	
Issued 1,500 shares on conversion of 300 shares 5% convertible preferred	30,000
Issued 500 shares for \$7,495 cash	7,495
Retained earnings	
Net increase	<u>3,983</u>
Net increase in equity financing	<u>\$ 11,478</u>

Figure 2. Statement of Financing Activities

Source: Loyd C. Heath, Accounting Research Monograph No. 3, Financial Reporting and the Evaluation of Solvency (AICPA, 1978), p. 133.

Example, Inc.

STATEMENT OF INVESTING ACTIVITIES
FOR YEAR ENDING DECEMBER 31, 1977Properties

Land, buildings, and equipment, 12/31/76	\$319,101
Plus: Purchases	<u>62,119</u>
	381,220
Less: Cost of properties disposed of	<u>31,595</u>
Land, buildings, and equipment, 12/31/77	<u>\$349,625</u>

Figure 3. Statement of Investing Activities

Source: Loyd, C. Heath, Accounting Research Monograph No. 3, Financial Reporting and the Evaluation of Solvency (AICPA, 1973), p. 135.

Harold E. Arnett. Arnett (1979) observed that in order for investors to properly evaluate a business enterprise, the financial statements over a period of time should not only reflect the firm's financial position and profitability, but should also present information regarding its growth patterns and the financing thereof. He felt that the objectives of the funds statement as generally conceived were too narrow to provide this latter information. According to Arnett:

The funds statement is not needed to reflect where the firm obtained cash and how that cash was utilized. A cash receipts and disbursements statement could do that more effectively. In fact, regardless of how funds are defined, the funds statement should not be concerned with just the narrow objective of reflecting how funds were obtained and how they were used. Rather, it is needed, in a broader sense, to reflect the changing asset patterns of a firm and how those changes were financed. . . . (p. 31)

Thus, he concluded that the two primary objectives of the funds statement are to reflect the expansion or contraction (growth) patterns of a firm and to indicate how such growth activities are being financed (p. 31).

Arnett defined growth in terms of nominal dollar increases and decreases in the book values of a firm's assets. He recognized that growth was a multi-faceted concept and that measurement of real growth might involve adjustments to the accounts and financial statements. Nevertheless, he defended his cost basis definition by stating that his goal was to present a funds statement of the greatest usefulness within the constraints of generally accepted accounting principles (p. 30).

The treatment of funds derived from asset dispositions provides an interesting illustration of Arnett's view regarding growth and a means

of contrasting this view with the funds statement's objectives as generally conceived. According to Arnett:

Such funds must be broken into two segments. To the extent of the book values of assets disposed of, funds acquired are asset conversions into a more usable form, i.e., in essence they are negative growth factors. To the extent of any gains, the funds are additional investments by the owners during the period (losses are reductions of investments). (p. 4)

Thus, while the proceeds from asset dispositions were a financial resource available to management for numerous uses, to the extent of book values disposed of, the proceeds could not contribute towards enterprise growth.

Arnett's focus on nominal dollar changes in book values of assets as a measure of enterprise growth is subject to question. For example, assume that fixed assets with combined book values of \$70 are sold for \$100 and the assumed proceeds used to repurchase the same assets. According to Arnett the aforementioned transactions might be disclosed as follows (tax effects ignored):

Methods of Financing Growth Activities

Additions to owners' investment during the period
due to asset dispositions:

Gain on sale of fixed assets	\$ <u>30</u>
Funds available for investment and expansion	\$ <u>30</u>

Growth Activities

Additional fixed assets acquired	\$100
Less: Book value of fixed assets disposed of	<u>70</u>
Net investment and expansion	\$ <u>30</u>

From the preceding illustration, the legitimate question arises as to whether any growth activity has occurred. Although enterprise book values have definitely increased, the capacity of the assets underlying those book values to generate future financial resources apparently has not. Thus, while it is true that the information in the illustration is basically the same as would be disclosed in a conventional funds statement, Arnett's definition of enterprise growth perhaps provides an interpretation for which this information was not intended.

Contribution of Empirical Research

During the post-Opinion 19 decade accounting research made a modest contribution to the development of the funds statement. This subsection of the chapter highlights three major areas of empirical research pertaining to funds-reporting and a few of the writers who contributed to each research area.

Implementation of Opinion 19. The objective of an extensive study by Spiller and Virgil (1974) was to evaluate the success of Opinion 19 in effecting improvements in funds reporting practices. Their methodology involved three basic steps: (1) a large random sample of corporations required to submit reports to the Securities and Exchange Commission was chosen, (2) an attempt was made to obtain the financial statements of these companies for each of the fiscal years preceding and subsequent to Opinion 19, and (3) each pair of financial statements from the resulting sample of 143 companies was subjected to extensive comparative analysis. The following seven aspects of funds-reporting were

analyzed in formulating the authors' conclusions regarding the relative success of Opinion 19:

1. Concept of funds
2. Funds from operations
3. Extraordinary items
4. Financing activities
5. Investing activities
6. Noncurrent exchanges
7. Other management representations of funds flows

In conducting their analysis the authors' main test of the opinion's impact was to compare the number of firms conforming to each requirement before and after the opinion (p. 114). In doing so they observed both the technical and numerical accuracy exhibited by their sample of firms.

As a result of their study, Spiller and Virgil concluded that funds-reporting practices were deficient in four general areas:

1. Numerous noncomplying funds statement practices persist as a result of clear violations or narrow constructions of the opinion's requirements.
2. Opinion No. 19 contains defects that hamper its effectiveness.
3. Firms adhere only to the letter of many disclosure requirements, seemingly missing the basic intent.
4. Management representations in the unaudited sections of the annual report may detract from the funds statement by distorting some aspects of the firm's funds flows.⁸ (p. 130)

⁸The authors noted that the single most common representation involved management's conveyance that "they had acquired capital assets with depreciation money, financed growth through depreciation, or engaged in other similar forms of black magic" (p. 131). It should be

The authors further observed that since their analysis revealed deficiencies in both Opinion 19 and in its implementation, a thorough revision should be made of the funds-reporting requirements.

Support for several conclusions reached by Spiller and Virgil (1974) appeared in a less extensive study by Giese and Klammer (1974). In reviewing the 1971 annual reports of a random sample of Fortune 500 firms, these authors focused primarily on the terminology used for major headings in the funds statement and on nonfund adjustments to net income.⁹

They observed that only five of their sample firms used the preferred terminology, "resources provided" and "resources used", in labeling the statement's major sections. They also found that 50 percent of their sample firms did not clearly label items not currently requiring working capital as such.¹⁰ They expressed their dissatisfaction with these findings in the following manner:

noted that during the 1970's at least two writers in major accounting journals made similar representations. See Allen H. Seed III, "Utilizing the Funds Statement," Management Accounting (May 1976), p. 16; John H. Regazzi, "Why Aren't Financial Statements Understood?", Journal of Accountancy (April 1974), p. 53.

⁹In addition to the empirical aspect of the study, the authors proposed a funds statement based on the cash concept of funds and direct method of deriving funds from operations. In their illustration, however, they arrived at "net cash inflow from operations" and "net cash outflow from operations" by applying indirect method adjustments to operating revenues and operating expenses, respectively (p. 59).

¹⁰In a study of similar size Posey stated, less dramatically, that "there seems to be considerable room for improvement in format, content, and terminology, even after recognizing that the Board expressly recognized the need for flexibility" (p. 21). See Imogene A. Posey, "Another Look at the Statement of Changes in Financial Position," The Women CPA (April 1976), pp. 19-21.

The apparent disregard of this requirement is not understandable since compliance is so easy. The purpose of this requirement was to eliminate a persistent source of confusion and thus improve overall communication. (p. 57)

In stating their conclusions the authors implied that the accounting profession was partly responsible for these reporting deficiencies. They strongly suggested that greater effort must be exerted by professional accountants to eliminate the carelessness and casualness in disclosing funds flows as exemplified by the reporting of the firms in their sample (p. 57).

Surveys of user preferences. User preferences for alternative methods of disclosing funds flows were reported in studies by Beams and Strawser (1975) and Brownlee (1975); Beams and Strawser surveyed management accountants, while Brownlee surveyed commercial banks and investment companies. The most intriguing aspect of these studies was the general support for the major provisions of Opinion 19 indicated by the user groups surveyed, including relatively strong support for the working capital concept of funds and indirect method of deriving operating funds flows. However, the potential significance of these studies is diminished by their reliance on descriptive techniques as the basis for their conclusions. Moreover, Beams and Strawser did not raise the issue of potential nonresponse bias in their study even though a moderately low response rate of 19 percent was obtained.

Value of the funds statement. During the 1970's a number of studies were conducted which examined the relative importance and/or the

extent of disclosure of selected financial and nonfinancial information items in annual reports (Singhvi and Desai, 1971), (Buzby, 1974), (Chandra, 1975), (Stanga and Benjamin, 1978). Review of these studies reveals that the funds statement was perceived to be of moderate to high value by various groups surveyed. These groups included bankers, security analysts, and public accountants. The importance of the funds statement in each of these studies was based on its relative rank order among the information items under study.

Contribution Prior to the Financial
Accounting Standards Board

In 1971 the Study Group on the Objectives of Financial Statements was commissioned by the AICPA to identify a set of normative objectives of financial statements to serve as a basis for the ongoing refinement and improvement of accounting practices. The report of the Study Group, Objectives of Financial Statements, was published in October 1973, just several months after the newly formed Financial Accounting Standards Board had superseded the Accounting Principles Board.

The ninth objective proposed by the Study Group indicated the need for a statement of financial activities to accompany the income statement and balance sheet. Although the accompanying discussion was both general and brief, the following excerpt seems to convey the Study Group's views regarding the essential characteristics of the financial activities statement:

The statement of financial activities should disclose only those activities that are presumed to have significant cash consequences. They should be so ordered as to stress such functional activities as purchasing, manufacturing, selling, leasing, and financing. . . . However, this

statement of financial activities may disclose events not described elsewhere, such as purchase commitments and changes in sales backlogs, but is not intended to disclose other events, such as significant value changes. . . . Sales, purchases, other acquisitions, and similar activities should be grouped to show their overall effect on the change in net liquid assets (cash, plus highly probable cash receipts, less highly probable cash disbursements). (p. 38)

Although the Study Group did not provide an illustration to accompany its discussion of the financial activities statement, the statement described therein appears to be essentially similar to the funds statement described in Opinion 19; however, by including items such as purchase commitments and changes in sales backlogs in the statement, the Study Group appears to have intended the scope of the statement to include nonfund items of a contingent nature.

Re-examination of the Funds Statement by
the Financial Accounting Standards Board

1980 Discussion Memorandum. In December 1980 the FASB incorporated the funds statement into its conceptual framework project by issuing the Discussion Memorandum, An Analysis of Issues Relating to Reporting Funds Flows, Liquidity, and Financial Flexibility. The Board gave two major reasons for undertaking this project:

1. In recent years, users of financial information have shown increased interest in information about the funds flows, liquidity, and financial flexibility of an enterprise.
2. There has been some concern about the effectiveness of existing practices for reporting funds flows, liquidity, and financial flexibility of an enterprise. (par. 22)

In connection with the second reason cited above, the Board recognized the following weaknesses in Opinion 19:¹¹

1. It fails to give satisfactory guidance about the role of the funds statement in meeting the objectives of financial reporting.
2. The resulting reports compress too much information into one statement.
3. It does not focus on any specific definition of funds (par. 30)

Of the twenty-four issues addressed in the Discussion Memorandum, seventeen pertained to funds-reporting. These seventeen issues focused on four general aspects of funds-reporting:

1. Requirement that a funds statement be presented
2. Concept of funds to be used
3. Format of the funds statement
4. Other funds-reporting issues

A public hearing on the Discussion Memorandum was held May 11-13, 1981. The Board received 190 written communications and 33 parties presented their views orally during the hearings.

Omissions from the Discussion Memorandum. The purpose of a discussion memorandum is to raise issues and describe alternative solutions in order to provide a basis for public comment. No single document, however, should be expected to be comprehensive in every aspect of the topic under study. Nevertheless, in view of the post-Opinion 19 literature, the FASB's Discussion Memorandum omitted several issues of concern.

¹¹Related discussion in the document quoted from both Spiller and Virgil (1974) and Heath (1978a).

First, discussion regarding the objectives of the funds statement was conspicuously absent from the document. Both Heath (1978a) and Arnett (1979) considered the statement's objectives of paramount importance. Furthermore, the highly dependent nature of the statement's basic structure on its objectives is suggested in the proposals made by these two writers.

Less noticable was the omission of discussion regarding the conceptual validity of offsetting operating sources and uses within the funds statement. Apparently the FASB considered this a nonissue and such offsetting as intrinsically useful despite arguments in the literature to the contrary (Kemp, 1971), (Roberts and Gabhart, 1972), (Nurnberg, 1972), (Heath, 1978a).

1981 exposure draft. In November 1981 the FASB issued an exposure draft of a financial concepts statement entitled, Reporting Income, Cash Flows, and Financial Position of Business Enterprises.¹² The objective of this proposed statement was to present concepts to guide decisions about the display and disclosure of information about comprehensive income, cash flows, and financial position.

Perhaps the single most significant aspect of the entire document was its explicit advocacy of cash flow funds statements. In developing

¹² Because of their close relationship, in January 1981 the FASB decided to merge its projects on reporting earnings and funds flows. In July 1981, for similar reasons, a consideration of the reporting of financial position was added to the project.

this preference the Board relied heavily on the content of Concepts Statements No. 1, stating that:¹³

The objectives of financial reporting indicate that users need information about cash inflows and outflows to help with assessments of future cash flows and to provide feedback about previous assessments. Accordingly, this proposed Statement focuses on the need for cash flow statements rather than some other kind of funds statement. (par. 45)

While the Board explicitly advocated cash flow statements, it did not prohibit the use of the other traditional concepts of funds. The Board did, however, strongly suggest that their usefulness in future funds-reporting practices was limited at best. The Board stated its views concerning this matter as follows:

Reports of funds flow provide useful information if they contribute to the assessment of the amounts, timing, and uncertainty of future cash flows in a cost-effective manner. It is conceivable that some benefits might result from the publication of more than one report of funds flows, each using a different definition of funds. Additional information about the flows of other types of "funds" is unlikely to add enough to be cost effective, given that information about changes in other assets and in liabilities can be inferred from information in the balance sheet, income statement, and a statement of cash receipts and payments. (par. 138)

The proposed statement also included broad guidance regarding the components of cash flows.¹⁴ A component should be shown separately if it had "special significance for the assessment of some aspect of enterprise performance and for users' assessments of future income and cash flows" (par. 46). Accordingly, the Board suggested that the following

¹³ Statement of Financial Accounting Concepts No. 1, Objectives of Financial Reporting by Business Enterprises (FASB, 1978), par. 49.

¹⁴ Many of the proposed guidelines were jointly concerned with income statements and cash flow statements. This discussion focuses only on their effect on cash flow statements.

components of cash flows be shown separately in the body of cash flow statements:

- (1) Ongoing central operations
- (2) Discontinued operations
- (3) Results of peripheral activities
- (4) Unusual activities
- (5) Investments in resources
- (6) Disposal of investments
- (7) Borrowing
- (8) Repayment of borrowing
- (9) Investments by owners
- (10) Distributions to owners (par. 46)

Specifically excluded from the preceding list was the component sometimes referred to as "funds available for expansion and distribution."¹⁵ This intermediate component of funds flows is derived by deducting from funds flows generated by operations the amount of additional investment needed to maintain the operating capability of fixed assets, inventory, and monetary working capital, and the extent to which those additional cash requirements may be met from additional borrowings (par. 156). The Board observed that such adjustments would involve incorporation into the statement of cash flows of amounts not representing actual cash flows. Therefore, the Board concluded that

¹⁵ For more discussion regarding this component see Discussion Memorandum, An Analysis of Issues Relating to Reporting Funds Flows, Liquidity, and Financial Flexibility (FASB, 1980), pp. 64-85.

such information should not be reported in the body of the statement, but rather could be communicated more effectively in supplementary information.

The Board also suggested that the proposed guidelines provided the basis for decisions about the reporting of results for a segment of a business enterprise (par. 158). However, the Board did not elaborate regarding which components of cash flows should be reported for business segments.

Finally, the Board explicitly refrained from indicating a preference for either the direct or indirect method of deriving cash provided by operations.¹⁶ However, it did note that:

A choice between the direct and indirect methods depends on an assessment of their relative costs and benefits. One method may be preferable because it presents information in a more understandable way and, hence, enhances the usefulness of information about income and cash flows (par. 167)

III. SUMMARY OF THE CHAPTER

Following the introduction of the funds statement into the accounting literature in 1908, the statement progressed through a lengthy period of development and acceptance spanning six decades. During the 1920s and 1930s the statement was viewed primarily from a structural perspective with little attention directed to the statement's potential usefulness in financial reporting. This early emphasis on

¹⁶At least two authors used Concepts Statement No. 1 as a basis for advocating the direct approach of deriving cash from operations. See Robert T. Fahnestock and Russell F. Briner, "How to Use the Cash-Basis Funds Statement as an Analytical Tool," The Practical Accountant (March 1981), p. 38.

mechanics coincided with the widespread acceptance of a funds statement detailing the causes of a change in working capital. Adoption of the working capital concept by C.P.A. examiners and textbook writers contributed to the concept's continued support by future practitioners.

During the 1940s the emphasis on mechanics waned as more writers began to consider the usefulness aspect of the funds statement. Although most discussions addressed this issue in general terms, by the end of the decade interest in the statement had developed to the point where some writers suggested that the statement be treated on an equal basis with the income statement and balance sheets.

As the funds statement entered the 1950s, interest in the statement's usefulness continued to grow and a few companies began to include funds statements in their annual reports. By the end of the decade the APB became involved in the statement's development by authorizing a research study pertaining to the funds statement. The recommendations of the report formed the basis for the issuance of APB Opinion 3 in 1963. While the opinion did not fully recognize the funds statement as a major financial statement, it did provide a broad set of guidelines regarding the statement's preparation. Opinion 3 undoubtedly contributed to a further, significant increase in the availability of external funds statements.

In 1971 the APB superseded Opinion 3 by issuing Opinion 19 wherein the funds statement was elevated to the status of a major financial statement. Opinion 19 was generally viewed as a major accomplishment in the area of corporate external financial reporting. Nevertheless, the opinion has received considerable criticism.

A number of writers have suggested that Opinion 19 resulted in deficient funds-reporting practices by proposing in its guidelines that the statement detail changes in working capital and use the indirect method of determining funds generated by operations. Some writers have also criticized the opinion's stated objectives for the funds statement and/or observed the existence of serious problems regarding management's compliance with the opinion's guidelines.

In addition to criticizing the provisions of Opinion 19, many writers have proposed changes to improve the funds statement. Generally, these suggestions indicate that the statement should be based on a more liquid concept of funds and should derive funds generated by operations through the direct method. By the end of the decade the criticism directed at Opinion 19 resulted in a re-examination of the funds-reporting topic by the FASB.

The FASB's re-examination commenced in December 1980 with the issuance of the Discussion Memorandum, An Analysis of Issues Relating to Reporting Funds Flows, Liquidity, and Financial Flexibility. A significant portion of the Discussion Memorandum was concerned with four aspects of funds-reporting: (1) the requirement that a funds statement be presented, (2) the concept of funds to be used, (3) the format of the funds statement, and (4) other funds-reporting issues.

In November 1981 the FASB moved closer to an eventual resolution of the funds-reporting problem by issuing an exposure draft of a financial accounting concepts statement entitled, Reporting Income, Cash Flows, and Financial Position of Business Enterprises. The most significant

aspect of the proposed statement, and perhaps of the entire decade, was the FASB's strong advocacy of cash flow funds statements.

Thus, the future basis of funds-reporting appears to be headed toward increased disclosure of information about cash flows. However, many funds-reporting issues remain unresolved and, therefore, are subject to further discussion and, ultimately, a final determination by the FASB. One can only speculate as to whether the FASB's final funds-reporting proposal will contribute to a higher degree of consensus than did APB Opinion 19.

CHAPTER III

METHODOLOGY

The purpose of this chapter is to develop the methodology designed to meet the research objectives cited in Chapter I. The chapter's four major subdivisions present (1) the survey techniques employed in collecting the study's response data, (2) the research hypotheses and nonparametric statistical tests employed in testing these hypotheses, (3) an investigation of nonresponse bias, and (4) a summary of the chapter.

I. QUESTIONNAIRE APPROACH

Analysis of alternative financial disclosures involves the evaluation of qualitative characteristics of that information (FASB, 1980a). As yet, no comprehensive scoring system exists by which the relative merits of competing alternatives may be objectively determined. Consequently, decisions regarding accounting choices must rely predominately on the subjective judgement of individuals (FASB, 1980a, par. 10).

Questionnaire research techniques generally provide an effective method of obtaining individuals' subjective judgements about themselves, their environments, and their responses to changing conditions (Buckley, Buckley, and Chiang, 1976). Additional advantages associated with the use of questionnaires include the means of sampling large, geographical-ly dispersed populations at relatively low cost and the opportunity to analyze data through a variety of statistical techniques.

Design of Questionnaire

The study's response data were collected by means of a mail questionnaire which was administered to a sample of chief commercial loan officers (CLOs) and chartered financial analysts (CFAs). The questionnaire was designed following an extensive review of the funds-reporting literature, with the objective of measuring the degree of usefulness associated with alternative methods of disclosing funds flows. In determining the questionnaire's final content, emphasis was placed on the issues and alternatives addressed in Chapters 2-7 of the 1980 FASB Discussion Memorandum, An Analysis of Issues Relating to Reporting Funds Flows Liquidity, and Financial Flexibility. This document was discussed in Chapter II.

Although the questionnaires sent to CLOs (Appendix C) and CFAs (Appendix D) were similar, some differences were necessary to reflect the different frame of reference of the two survey groups. Substantive differences in the two forms of the questionnaire are highlighted in the following discussion.

The questionnaire's principal content consisted of ten rating-scale questions, each focusing on a particular funds reporting issue and accompanied by a set of disclosure alternatives to be evaluated. (See Appendices C and D.) These questions were designated A-J, respectively. The number of disclosure alternatives per question varied from as few as two to as many as eleven alternatives. Following is a summary of the funds-reporting issues addressed by questions A-J:

- A. Concept of funds underlying the funds statement
- B. Major aggregation of information within the funds statement
- C. Derivation of funds provided (used) by operations
- D. Disclosure of significant financing and investing transactions not affecting funds flows
- E. Level of detail associated with specific funds flows
- F. Comparative funds statements
- G. Funds flows within a consolidated entity
- H. Funds flows of nonconsolidated affiliates
- I. Detailed changes in various categories of assets, liabilities, and equities
- J. Effect of changing prices on funds available for expansion and distribution

In addition to questions A-J, the questionnaire contained a rating-scale question (designated K) and two free-response questions (designated L and M) to provide a basis for interpreting subjects' responses to questions A-J. Question K concerned the usefulness of six sources of financial and/or nonfinancial information. Questions L and M requested respondents to elaborate on their preference for a particular concept of funds and on significant revisions that should be made to current funds-reporting practices, respectively.

For each disclosure alternative a nine point usefulness response scale was provided. A page of carefully worded instructions requested subjects to evaluate each alternative independently and indicate their personal opinion concerning the usefulness of the alternatives in reporting information on funds flows by circling the appropriate

response on the scale. (See Appendices C and D.) The response scale was provided, was constructed as follows:¹⁷

USEFULNESS									
LOW					HIGH				
1	2	3	4	5	6	7	8	9	

In order to reduce discrepancies among respondents with respect to the meaning of usefulness, the instructions to each survey group contained both a user-specific definition of usefulness and closely corresponding decision context. Usefulness was defined in the instructions to CLOs (a) and CFAs (b) in the following manner:

- (a) Information on funds flows is useful if it assists present and potential creditors in assessing the prospects for returns and the risks involved in alternative lending opportunities and if the benefits of reporting such information at least equal the costs involved.
- (b) Information on funds flows is useful if it assists present and potential investors in assessing the prospects for returns and the risks involved in alternative investment opportunities and if the benefits of reporting such information at least equal the costs involved.

The decision contexts provided in the instructions to CLOs (a) and CFAs (b) were formulated as follows:

- (a) . . . extend a term loan (maturity between 3 and 5 years) of moderate to large size to a large, publicly-held industrial company.

¹⁷ For excellent expositions on the construction of rating scales see A. N. Oppenheim, Questionnaire Design and Attitude Measurement (New York: Basic Books, Inc., 1966); J. P. Guilford, Psychometric Methods (New York: McGraw-Hill Book Co., Inc., 1936).

- (b) . . . buy, sell, or hold a small (noncontrolling) number of common shares in a large, publicly-held industrial company.

Notably, the differences between the usefulness definitions are the terms creditors/investors and lending opportunities/investing opportunities. Correspondingly, the differences between the decision contexts are related to the creditor/investor frame of reference of the two survey groups.

As a final design feature, a set of carefully worded instructions was inserted between questions A and B. (See Appendices C and D.) The role and importance of the instructions were closely associated with the use of the Kruskal-Wallis nonparametric test. Since the Kruskal-Wallis test is discussed in a subsequent section of the chapter, a more detailed discussion of the instructions is deferred to that section.

Pretest of Questionnaire

Prior to submitting the questionnaire for commercial printing, a draft questionnaire was formally pretested. Three chief commercial loan officers and three chartered financial analysts each consented to (1) complete the draft questionnaire and (2) provide constructive criticism regarding its design and content. The draft questionnaire contained a specific request for comments concerning the study followed by space for such comments to be made.

Five completed draft questionnaires were returned. These returns were carefully reviewed for comments suggesting further revision to the questionnaire and for any indication that the respondents had experienced difficulty completing the questionnaire, such as items left blank

or numerous erasures. Appropriate modifications to the questionnaire were made based on this review.

Survey Subjects

The FASB (1978, par. 34) has identified investors and creditors as the primary external users of financial information. Accordingly, the development of financial accounting and reporting standards should be particularly responsive to the information needs of these user groups. However, due to the technical nature of the subject matter addressed in the questionnaire, it was necessary to confine the survey to those investors and creditors perceived as possessing a relatively high degree of sophistication in financial accounting and reporting matters. Chief commercial loan officers and chartered financial analysts were selected as populations of interest because they often represent or advise those who have or contemplate having direct economic interests in various business enterprises.

Chief commercial loan officers. Three hundred loan officers were randomly selected from the chief commercial loan officers at each of the 500 largest commercial banks in the United States based on total assets at December 31, 1980. These banks were identified in the March 31, 1981 edition of American Banker. A total of 300 questionnaires were subsequently addressed to the "Chief Commercial Loan Officer" at the corporate headquarters of each sample bank.

The survey was limited exclusively to large banks in order to ensure that the sample contain a high proportion of CLOs who rely more

heavily on financial statements in their leading decisions and who are highly knowledgeable in financial and reporting matters.¹⁸

Chartered financial analysts. Three hundred chartered financial analysts were randomly selected from the 1980-1981 Membership Directory of the Institute of Chartered Financial Analysts. Although the C.F.A. designation assures that an analyst has met certain education, experience, and examination standards, analysts in the following classifications were excluded from the survey:

Industry Classifications

1. Financial publishing
2. Other

Membership Classifications

1. General business administrator
2. Statistical research analysts
3. Economists
4. Academicians
5. Retired
6. Members of Canadian chapters, or with a foreign mailing address
7. Other

¹⁸Backer, for example, has noted that in making lending recommendations loan officers at small banks typically rely more heavily on personal knowledge of a loan applicant than on the applicant's published financial information. See Morton Backer, Financial Reporting for Security Investment and Credit Decisions (NAA, 1970), p. 7.

The categories listed above were excluded from the survey in order to ensure that the sample selected contain a high proportion of CFAs actively engaged in making equity-investment decisions and with a common frame of reference regarding financial accounting and reporting in the United States.

Mailing Phase and Returns

The questionnaire was administered during a six week period commencing late in September 1981. A packet of materials containing a carefully worded introductory coverletter (Appendix A), a copy of the questionnaire with a detachable page of detailed instructions, and a postage-paid, pre-addressed return envelope was sent to each subject by first-class mail. Three weeks later a second packet of materials was sent to each nonrespondent by first-class mail. The second packet of materials was similar in content to that of the first, but contained a somewhat condensed introductory coverletter (Appendix B).

The termination date for inclusion in the study was three weeks after the second mailing. Response rates obtained from CLOs and CFAs are summarized in Table III-1 and Table III-2, respectively.

II. STATISTICAL METHODOLOGY

Nonparametric Approach

Parametric statistical techniques are generally recognized as the most powerful tools available for analyzing research data. The use of parametric methods, however, is predicated on stringent assumptions regarding the parameters of the population(s) from which the data were drawn and that the data be of interval or higher measurement strength

TABLE III-1
CHIEF COMMERCIAL LOAN OFFICERS
QUESTIONNAIRE RESPONSES

Rank of Employer Bank By Total Assets	Questionnaires Mailed	Usable Responses First Mailing	Second Mailing	Total	Percent
1-50	27	6	6	12	44.44
51-100	34	3	8	11	32.35
101-150	23	6	3	9	39.13
151-200	36	4	8	12	33.33
201-250	32	4	9	13	40.63
251-300	29	11	5	16	55.17
301-350	33	6	5	11	33.33
351-400	27	3	7	10	37.04
401-450	30	3	5	8	26.67
451-500	29	4	4	8	27.59
Unclassified	-	0	3	3	-
Total	300	50	63	113	37.67

Comments:

1. Three usable questionnaires were returned for which bank identity was not determinable.
2. Five questionnaires were returned which could not be utilized.

TABLE III-2

CHARTERED FINANCIAL ANALYSTS QUESTIONNAIRE
RATES OF RESPONSES

Industry Classification	Questionnaires Mailed	Usable Responses		Total	Percent
		First Mailing	Second Mailing		
Brokerage and investment banking	68	0	3	3	4.41
Investment companies	22	1	2	3	13.64
Investment counselor	71	4	0	4	5.63
Corporate financial executive	2	1	0	1	50.00
Trust company and bank trust department	75	9	7	16	21.13
Banking	10	2	0	2	20.00
Private funds	12	0	0	0	0.00
Insurance companies	32	2	5	7	21.88
Public agencies	1	0	1	1	100.00
Financial consulting firms	7	0	1	1	14.29
Total	300	19	19	38	12.67

Comments:

1. Twelve questionnaires were returned which could not be utilized.

(Siegel, 1956). It is believed that neither the distributional assumptions nor the measurement strength requirements of the parametric statistical model are met in the study's response data. Accordingly, the following three nonparametric analog techniques were employed in analyzing the data: (1) Friedman, (2) Kruskal-Wallis, and (3) Mann-Whitney U.

Friedman. The Friedman two-way analysis of variance was used to determine the most useful alternative methods of disclosing funds flows to CLOs and CFAs. The null hypothesis of the Friedman test is that k related samples have been drawn from the same population, versus the alternative hypothesis that at least one sample has been drawn from a different population (Daniel, 1978). The following null hypotheses (H_o) were tested on the disclosure alternatives considered in each question (A-J):

H_o^1 : The alternatives are the same in degree of usefulness to CLOs.

H_o^2 : The alternatives are the same in degree of usefulness to CFAs.

The corresponding alternative hypotheses (H_a) are as follows:

H_a^1 : At least one alternative is more useful to CLOs than at least one other alternative.

H_a^2 : At least one alternative is more useful to CFA's than at least one other alternative.

Where the null hypothesis was rejected in favor of the alternative hypothesis, multiple comparisons were performed to determine significant differences among the alternatives.

The Friedman test assumes that the variable of interest (usefulness) is continuously distributed and requires at least ordinal measurement of that variable. In addition, the Friedman test assumes no interaction effects (Daniel, 1978).

Kruskal-Wallis. The Kruskal-Wallis one-way analysis of variance was used to determine whether the usefulness of alternative methods of disclosing funds flows to CLOs and CFAs is dependent on the concept of funds selected as the underlying basis of the funds statement. Prior to applying the Kruskal-Wallis test, it was necessary to classify respondents from each survey group into four subgroups according to their preferred concept of funds, i.e., cash, cash plus short-term securities, net quick assets, and working capital. Furthermore, to ensure meaningful statistical comparisons between these subgroups, it was important that the responses of each subgroup to questions B-J be based on the same underlying concept of funds. Therefore, a special set of instructions was inserted between question A and B to ensure (1) that a single preferred concept of funds could be identified with each respondent and (2) that this concept of funds formed the basis of the respondent's answers to questions B-J. These instructions were reinforced by means of a reminder placed at the top of each page of the questionnaire where appropriate. (See Appendices C and D.)

The Kruskal-Wallis test is appropriate with k independent samples to test the null hypothesis that the k population distribution functions are identical. The corresponding alternative hypothesis is that the k populations do not all have the same median (Daniel, 1978). The

following null hypotheses were tested on each disclosure alternative considered in questions B-J:

H_o^3 : The alternative is the same in degree of usefulness to the four subgroups of CLOs.

H_o^4 : The alternative is the same in degree of usefulness to the four subgroups of CFAs.

The corresponding alternative hypotheses are as follows:

H_a^3 : At least one subgroup of CLOs finds the alternative more useful than at least one other subgroup.

H_a^4 : At least one subgroup of CFAs finds the alternative more useful than at least one other subgroup.

Where the null hypothesis was rejected in favor of the alternative hypothesis, multiple comparisons were performed to determine significant differences among the subgroups.

The Kruskal-Wallis test assumes that the data for analysis are independent random samples and that the populations under study are identical except for a possible difference in location for at least one population. In addition, the test assumes that the variable of interest is continuous and requires at least ordinal measurement of that variable (Daniel, 1978). One appealing aspect of the test is that the k samples may be of different sizes.

Mann-Whitney U. The Mann-Whitney U test was used to determine if the usefulness of alternative methods of disclosing funds flows to CLOs and CFAs is the same. The Mann-Whitney U test is appropriate with two independent samples to test the null hypothesis that the two samples

have been drawn from populations having the same median. The corresponding two-tailed, alternative hypothesis is that the medians of the two populations are different (Daniel, 1978). The following null hypothesis was tested on each disclosure alternative of questions A-J:

H_0^5 : The alternative is the same in degree of usefulness to CLOs and CFAs.

The corresponding alternative hypothesis is as follows:

H_a^5 : The alternative differs significantly in degree of usefulness to CLOs and CFAs.

The Mann-Whitney U test assumes that the variable of interest is continuously distributed and requires at least ordinal measurement of that variable. In addition, the test assumes that the unspecified distribution functions of the two populations differ only with respect to their location parameters, if they differ at all (Daniel, 1978).

The Mann-Whitney U test was also used in this study to test for nonresponse bias. The issue of nonresponse bias and use of the Mann-Whitney U test are addressed in the following section of the chapter.

III. CONSIDERATION OF NONRESPONSE BIAS

The most serious limitation of mail surveys is a result of the pervasive low response rates obtained. Since the determinants of nonresponse are nonrandom in nature, a low response rate may evidence that survey respondents are not necessarily of the original sample drawn and, more importantly, the population they purport to represent (Oppenheim, 1966). The disturbance in sample statistics which results is commonly referred to as nonresponse bias.

When nonresponse bias is present in survey data reliable inferences about the population(s) under study based on sample statistics cannot be made with any reasonable degree of confidence. As a result, the usefulness of survey results are questionable because the bias seriously impairs their generalizability.

Since the rates of response indicated in Table III-1 and Table III-2 (see pages 51 and 52) are considerably less than 100 percent, the question of nonresponse bias is appropriately raised. In order to provide an answer to this question, CLO and CFA response data were examined for evidence of nonresponse bias. An early-late approach was selected primarily as a result of cost-benefit considerations. The early-late approach is based on the hypothesis that the returns of late respondents are roughly similar to those of nonrespondents (Ferber, 1948), (Oppenheim, 1966).

The Mann-Whitney U test (discussed in a prior section) was used to determine if early and late responses for each questionnaire alternative were drawn from populations having the same median. If the null hypothesis is rejected, then the populations of early and late responses are statistically different and nonresponse bias is suggested. Conversely, if the null hypothesis is not rejected, the populations are not statistically different and nonresponse bias is not indicated. In order to obtain the maximum measure of potential nonresponse bias, test procedures were extended to include responses to question K, in addition to questions A-J.

Nonresponse Bias Results and Conclusions

The results (Appendix F) indicate a significant difference between early and late responses in only four (7.4 percent) CLO and three (5.6 percent) CFA comparisons. These results are not substantially different from chance expectation at the specified alpha level of 5 percent. Unfortunately, these results cannot be regarded as conclusive. Several studies have provided empirical evidence that late respondents are not always similar to nonrespondents (Ford and Zeisel, 1949), (Ellis, Endo, and Armer, 1970). These studies suggest that the applicability of the gratuitous assumption underlying the early-late approach is study specific. Consequently, the results cited above provide a limited degree of negative assurance concerning the existence of non-response bias in the data.

Based on the early-late results and moderate response rate from CLOs (37.67 percent) it was concluded that nonresponse bias does not appear to be a significant problem in CLO returns. However, a similar conclusion could not be reached regarding the CFA returns.

In light of the low response rate from CFAs (12.67 percent), no reasonable degree of confidence could be placed on the results in Appendix F pertaining to CFA returns. Consequently, the low response rate from CFAs was judged prima facie evidence of nonresponse bias in those returns. To emphasize the statistical limitations of the CFA returns and prevent inadvertent inferences about the population of CFAs, presentation and analysis of CFA returns are not included within the main body of Chapter IV, but rather are presented in an addendum to that chapter.

IV. SUMMARY OF THE CHAPTER

The objective of this chapter was to develop the study's research methodology. The chapter presented discussion pertaining to the survey techniques employed in collecting the study's response data, including questionnaire design, pretest of the questionnaire, survey subjects, and mailing phase of the study. The study's statistical hypotheses were presented and the three nonparametric procedures by which these hypotheses were tested discussed. The tests discussed included the Friedman, Kruskal-Wallis, and Mann-Whitney U.

Following a careful investigation it was concluded that nonresponse bias does not appear to be a significant problem in CLO returns. However, the low response rate from CFAs was deemed prima facie evidence of nonresponse bias in CFA returns. Therefore, presentation of CFA returns is not included within the main body of Chapter IV, but rather is included in an addendum to that chapter.

CHAPTER IV

ANALYSIS OF RESULTS

I. INTRODUCTION

The purpose of this chapter is to present an analysis of the results of the study. The results presented herein are confined to the returns of CLOs because the returns of CFAs indicated a nonresponse bias (Chapter III). Some limited discussion pertaining to CFA returns and comparison of CLO and CFA survey groups can be found, however, in an addendum to the chapter.

Frequency distributions of CLO and CFA responses are found in Appendix F and Appendix G, respectively. Summary percentile and median response statistics are also provided in those appendices.

II. COMPARISONS OF ALTERNATIVES BY CLOs

The study's first research objective was to determine the most useful methods of disclosing funds flows. In connection with this objective, the Friedman statistic was used to test the null hypothesis that the alternatives considered in each question (A-J) are the same in degree of usefulness.

Table IV-1 indicates that the null hypothesis was rejected in favor of the alternative hypothesis for each question, except question A. Therefore, it appears that CLOs have a preferred method(s) of disclosing funds flows. It should be noted, however, that statistical significance throughout this chapter was determined using a 5 percent error level.

TABLE IV-1

LEVEL OF SIGNIFICANCE OF COMPARISONS OF ALTERNATIVES
BY CHIEF COMMERCIAL LOAN OFFICERS
(FRIEDMAN)

Question: Funds-Reporting Issue	Chi-Square	Probability (alpha)
A: Concept of funds	6.765	0.080
B: Major aggregation of funds flows	20.375	0.000*
C: Derivation of funds provided by operations	54.893	0.000*
D: Disclosure of nonfund financing and investing activities	25.969	0.000*
E: Level of detail of specific funds flows	377.149	0.000*
F: Comparative funds statements	51.904	0.000*
G: Funds flows within a consolidated entity	10.841	0.001*
H: Funds flows of nonconsolidated affiliates	74.638	0.000*
I: Schedules of changes in various categories of assets, liabilities, and equities	117.865	0.000*
J: Effect of changing prices on funds available for expansion and distribution	5.982	0.014*

* Significant at .05 level.

Therefore, the probability level of 8 percent pertaining to question A could be considered significant with only a modest increase in error level. However, no attempt is made to draw conclusions based on a higher error level.

Multiple comparisons were performed on the alternatives considered in questions B-J to determine significant differences among the alternatives. In each multiple comparison, the alternatives are presented in descending order of usefulness as indicated by the mean rank totals of the Friedman procedure. A line beneath adjacent alternatives indicates they are not statistically different in degree of usefulness. Conversely, the absence of a line beneath alternatives indicates they are statistically different and, therefore, are not equally useful. For example, the following five interpretations are derived from a multiple comparison denoted 2 1 3 4: (1) alternatives are presented in order of usefulness, (2) alternatives 2 and 1 are not statistically different in degree of usefulness, (3) alternatives 1 and 3 are not statistically different in degree of usefulness, (4) alternatives 2 and 3 are statistically different in degree of usefulness, and (5) alternative 4 is statistically different in degree of usefulness from alternatives 2, 1, and 3.

The following sections present the major findings derived from analysis of the multiple comparisons. The sections are organized to relate the findings to broad areas of funds-reporting. Where appropriate, specific findings are related to prior research and to relevant paragraphs of Opinion 19.

Concept of Funds

One of the most intriguing results of Table IV-1, and perhaps of the entire study, was the failure to reject the null hypothesis of no differences between the four concepts of funds in question A, i.e., cash, cash plus short-term securities, net quick assets, and working capital. This result possessed initial practical appeal by suggesting that the four concepts of funds are equally useful to CLOs.

This initial finding, however, was inconsistent with a priori expectations. Several studies have evidenced strong support by various user groups for the working capital concept, moderate to strong support for the cash concept, and weak support for other funds concepts, such as cash plus short-term securities and net quick assets (Beams and Strawser, 1975), (Brownlee, 1975), (Warren and White, 1975). Although these studies did not base their conclusions on inferential statistics, their findings did provide a reasonable basis for expecting differences between the four concepts included in this study. Furthermore, utilizing the analytic framework of these studies, the data in Appendix F-1 supports the expectation of differences between the four concepts of funds. For example, Appendix F-1 shows that 42.6 percent of CLOs responding to the study selected working capital as the most useful concept of funds, while 25.9 percent selected cash, 20.4 percent selected cash plus short-term securities, and only 11.0 percent selected net quick assets.

In order to rationalize the apparent inconsistencies in the previous paragraph, additional analysis was performed on the responses

of each subgroup to question A. As indicated in Chapter III, a subgroup is comprised of respondents preferring the same concept of funds.

The Friedman test was used to determine whether the four concepts of funds are the same in degree of usefulness to each subgroup. Multiple comparisons were performed where appropriate. The results of these additional procedures are summarized in Table IV-2.

Table IV-2 suggests that the initial failure to reject the null hypothesis in question A was due to a subtle counterbalancing effect between the four subgroups. That is, the strong preferences of each subgroup for its preferred concept of funds, in conjunction with the relative alignments of the two subgroups preferring the more liquid concepts (cash and cash plus short-term securities) and the two subgroups preferring the less liquid concepts (net quick assets and working capital), tended to nullify any real differences which may exist between the four concepts of funds. The following observations from Table IV-2 support this conclusion:

1. Three of four subgroups rated their preferred concept of funds more useful than the remaining three concepts.
2. In each multiple comparison, the ranking of the three less useful concepts (based on mean rank column totals) is in decreasing or increasing order of liquidity, depending on the relative liquidity of the subgroup's preferred concept of funds. For example, the cash subgroup rated the remaining three concepts in order of decreasing liquidity, i.e., cash plus short-term securities, net quick assets, and working capital. Conversely, the working capital subgroup rated the

TABLE IV-2

LEVEL OF SIGNIFICANCE OF COMPARISONS OF FUNDS CONCEPTS
BY SUBGROUPS OF CHIEF COMMERCIAL LOAN OFFICERS
(FRIEDMAN)

Subgroup	Chi-Square	Probability (alpha)	Multiple Comparisons (alpha = .05)
Cash	56.132	0.000*	1 <u>2 3</u> 4**
Cash plus short-term securities	25.675	0.000*	<u>2 1</u> 3 4
Net quick assets	42.273	0.000*	3 <u>4 2</u> 1
Working capital	67.115	0.000*	4 <u>3 2</u> 1

* Significant at .05 level.

** 1 = cash concept

2 = cash plus short term securities concept

3 = net quick assets concept

4 = working capital concept

remaining three concepts in order of increasing liquidity, i.e., net quick assets, cash plus short-term securities, and cash.

3. The two extreme concepts of each multiple comparison are statistically different in usefulness, while the two intermediate concepts are not statistically different in usefulness.

The preceding observations also suggest that major perceptual differences do exist between the proponents of each funds concept and, therefore, that the four funds concepts are not equally useful to all CLOs. Consequently, the flexibility allowed by Opinion 19 (par. 11) regarding the selection of an underlying concept for the funds statement appears to be the most practical and, perhaps, best answer to what remains a controversial question.

Operating Funds Flows

During the post-Opinion 19 decade, a number of writers criticized the opinion for implicitly advocating the indirect method of deriving funds provided by operations and the offset of operating sources and uses of funds (Kemp, 1971), (Roberts and Gabhart, 1972), (Nurnberg, 1972), (Heath, 1978). Notwithstanding this criticism, Table IV-3 indicates that CLOs find the indirect method (Question C1) more useful than other approaches of deriving funds from operations. In addition, the table suggests that CLOs prefer funds statement formats which offset operating sources and uses of funds (Question B2 and B3). Therefore, it appears that CLOs prefer operating funds flows be derived in accordance with the major provisions of Opinion 19.

TABLE IV-3

MULTIPLE COMPARISONS OF ALTERNATIVES: MAJOR
AGGREGATION OF FUNDS FLOWS AND DERIVATION
OF FUNDS PROVIDED BY OPERATIONS

Question: Funds-Reporting Issue	Multiple Comparisons (alpha = .05)
B: Major aggregation of funds flows	<u>2 3</u> 1 [*]
C: Derivation of funds provided by operations	1 <u>2 5 3</u> 4 ^{**}
*1 = Group information into two categories: (1) sources of funds (including revenues providing funds) and (2) uses of funds including operating expenses requiring the outlay of funds	
2 = Group information into three categories: (1) funds provided by (used in) operations, (2) other sources of funds, and (3) uses of funds	
3 = Group information into three categories: (1) funds provided by (used in) operations, (2) investing activities, and (3) financing activities	
**1 = Begin the funds statement with net income or loss, and add back or deduct items recognized in determining that income or loss which did not use or provide funds during the period (indirect method)	
2 = Begin the funds statement with total revenue that provided funds and deduct operating expenses that required the outlay of funds during the period (direct method)	
3 = Begin the funds statement with the figure "Funds Provided by (Used in) Operations" and include a note showing how it was derived using the indirect method	
4 = Begin the funds statement with the figure "Funds Provided by (Used in) Operations" and include a note showing how it was derived using the direct method	
5 = Report revenues providing funds as sources of funds and operating expenses requiring the outlay of funds as uses of funds	

An additional interesting aspect of Table IV-3 is respondents' preference for a direct approach calculation of funds from operations within the body of the funds statement (Question C2) rather than beginning the statement with the figure "Funds Provided by Operations" and providing details of a direct method calculation in a related footnote (Question C4). Heath's (1978a) advocacy of the later approach over the former was criticized in Chapter II. The above results provide some support for that criticism.

Table IV-4 indicates that the following details of operating funds flows are highly useful:

1. Detail to distinguish between the funds effects of extraordinary and normal items (Question E1)
2. Detail to distinguish between funds provided by continuing and discontinued operations (Question E2)

The first disclosure cited above is a requirement of Opinion 19 (par. 10). Although the second disclosure is not a requirement of the opinion, it apparently has some support in recent funds-reporting practices and at least one accounting pronouncement. For example, during the 1970's several companies distinguished between the funds flows of continuing and discontinued operations in their annual reports.¹⁹ Furthermore, such detail appears consistent with the provisions of APB Opinion 30, Reporting the Results Operations (1973).

¹⁹ For a specific example see Hortense Goodman and Leonard Lorensen, Illustrations of the Statement of Changes in Financial Position: A Survey of Reporting Under APB Opinion No. 19 (AICPA, 1974), p. 17.

TABLE IV-4

MULTIPLE COMPARISONS OF ALTERNATIVES: LEVEL OF DETAIL
OF SPECIFIC FUNDS FLOWS

Question: Funds-Reporting Issue	Multiple Comparisons (alpha = .05)
E: Level of detail of specific funds flows	<u>2 1 10 9 7 8 5 4 3 11 6</u> [*]
*1 = Distinguish between funds provided by (used in) continuing operations and funds provided by (used in) discontinued operations	
2 = Distinguish between funds flows associated with extraordinary items and ordinary funds flows	
3 = Report operating expenses requiring the outlay of funds as one figure	
4 = Report those expenses and revenues which were used in determining net income or loss, but did not use or provide funds as one figure	
5 = Report operating expenses requiring the outlay of funds by major functional category	
6 = Report all purchases of long-term assets as one figure	
7 = Distinguish between investments in (disposals of) assets required for operating purposes and other investments in (disposals of) assets	
8 = Report gross outlays for acquisitions and gross proceeds from retirement of property, plant, and equipment	
9 = Report gross borrowing and gross repayment of long-term debt	
10 = Report borrowing and repayment of long-term debt for each main type of indebtedness	
11 = Report borrowing and repayment of long-term debt as one figure	

Financing and Investing Activities

According to Table IV-4, disclosure of gross outlays for acquisition and proceeds from retirement of fixed assets (Question E8) and disclosure of gross borrowing and repayment of long-term debt (Question E9) are not statistically different from alternatives suggesting more detailed disclosure of these activities (Questions E7 and E10). Conversely, the table reveals that the alternatives are statistically different from corresponding alternatives suggesting less detailed disclosure (Questions E6 and E11). Since the aforementioned alternatives are requirements of Opinion 19 (par. 14), it appears that the level of disclosure of financing and investing activities prescribed by Opinion 19 is adequate.

The above conclusion, however, does not appear to apply to disclosure of nonfund financing and investing activities. In Table IV-5, CLOs prefer disclosure of such activities in supplemental schedules detailing changes in related balance sheet accounts (Question D2) rather than in the body of the funds statement (Question D1) (as suggested by Opinion 19, pars. 8 and 14), or in a related footnote (Question D3). This finding is puzzling in view of the results discussed in the previous paragraph; if the level of detail of financing and investing activities presently required by Opinion 19 is adequate, additional disclosure simply to accommodate certain nonfund transactions would be redundant and, perhaps, unnecessary.

If viewed within a broader perspective, the preference for disclosure of nonfund activities in detailed supplemental information may be interpreted as suggesting a moderate restructuring of the funds

TABLE IV-5

MULTIPLE COMPARISONS OF ALTERNATIVES: DISCLOSURE OF NONFUND
FINANCING AND INVESTING ACTIVITIES, AND SUPPLEMENTAL
SCHEDULES OF CHANGES IN VARIOUS CATEGORIES
OF ASSETS, LIABILITIES AND EQUITIES

Question: Funds-Reporting Issue	Multiple Comparisons (alpha = .05)
D: Disclosure of nonfund financing and investing activities	2 <u>3</u> 1*
I: Supplemental schedules of changes in various categories of assets, liabilities, and equities	<u>7 6 3 10 8 1 4 11 2 9 5</u> **

*1 = Report these transactions in the body of the funds statement

2 = Report these transactions in supplementary schedules disclosing detailed changes in related categories of assets, liabilities, and equities

3 = Report these transactions in a note to the financial statements

**1 = Current assets, excluding cash

2 = Cash

3 = Property, plant, and equipment

4 = Other long-term investments

5 = Intangible assets

6 = Short-term debt instruments

7 = Long-term debt instruments

8 = Equity securities

9 = Spontaneous debt

10 = Increases and decreases in each component of working capital

11 = Net changes in each component of working capital

statement such as proposed by Heath (1978a). (Heath's proposals were discussed in detail in Chapter II.) However, if this interpretation was valid, Table IV-5 should reveal significant preferences for supplemental schedules of changes in balance sheet accounts generally associated with financing and investing activities, i.e., property plant and equipment (Question I3), long-term debt (Question I7), and equity securities (Question I8). However, this is not the case. Table IV-5 generally shows that none of the alternatives are statistically different. Consequently, no conclusion regarding user preferences for disclosure of nonfund financing and investing activities is provided.

Net Changes in Working Capital

Opinion 19 (par. 12) requires that the net change in working capital be analyzed in appropriate detail in a tabulation accompanying the funds statement. Table IV-5 provides inconclusive evidence concerning the relative usefulness of such a tabulation (Questions I10 and I11). However, the table does indicate that increases and decreases in each working capital component (Question I10) and net changes in each component (Question I11) are not statistically different levels of detail. Therefore, net changes in each component probably provides sufficient detail for disclosure of changes in working capital.

Comparative Funds Statement

Table IV-6 indicates that separate funds statements (Question F1 and F3) are statistically different from a cumulative funds statement (Question F2) and, therefore, are more useful as a means of providing information for comparative purposes. A more interesting result from

TABLE IV-6

MULTIPLE COMPARISONS OF ALTERNATIVES:
COMPARATIVE FUNDS STATEMENTS

Question: Funds-Reporting Issue	Multiple Comparisons (alpha = .05)
F: Comparative funds statements	<u>1 3</u> 2 [*]

*1 = Present the funds statement for the preceding accounting period

2 = Present a funds statement providing aggregate information for
several preceding accounting periods

3 = Present the funds statement for each of several preceding
accounting periods

the table is that a single comparative funds statement from the preceding accounting period (Question F1) and comparative funds statements from each of several preceding periods (Questions F3) are not statistically different. A possible implication of this finding is that historical funds flow information is not widely used by CLOs in formulating lending decisions, perhaps as a result of funds flow volatility from period to period. However, a number of CLOs in their written responses to question K (discussed in a later section) expressed a desire for more extensive comparative funds flow information. Thus, it appears that at least some CLOs may rely on analysis of past funds flows in their lending decisions.

Supplemental Disclosures

The issue of supplemental disclosures about funds flows has only recently received serious attention by the accounting profession. Therefore, user needs pertaining to broad areas of supplemental disclosure must be identified before more detailed recommendations can be proposed and evaluated. The following broad areas of supplemental disclosure were identified in Table IV-7 as statistically different from other alternatives and, therefore, are more useful:

1. Information about significant restrictions on the ability of an enterprise to transfer net inflows of funds to its consolidated subsidiaries and to owners (Question G2)
2. Information about significant restrictions on flows of funds from nonconsolidated subsidiaries and affiliated enterprises to the parent enterprise (Question H4)

TABLE IV-7

MULTIPLE COMPARISONS OF ALTERNATIVES: FUNDS FLOWS
WITHIN A CONSOLIDATED ENTITY, FUNDS FLOWS OF
NONCONSOLIDATED AFFILIATES, AND EFFECT OF
CHANGING PRICES ON FUNDS AVAILABLE
FOR EXPANSION AND DISTRIBUTION

Question: Funds-Reporting Issue	Multiple Comparisons (alpha = .05)
G: Funds flows within a consolidated entity	2 1 [*]
H: Funds flows of nonconsolidated affiliates	4 1 <u>3 2</u> ^{**}
J: Effect of changing prices on funds available for expansion and distribution	1 2 ^{***}

*1 = Information to distinguish between those business segments that generate funds and those business segments that use funds

2 = Information about significant restrictions on the ability of an enterprise to transfer net inflows of funds to its consolidated subsidiaries and to owners

**1 = Condensed financial information about the funds from operations generated by these affiliates

2 = Condensed financial information about funds flows associated with acquisitions of long-term assets by these affiliates

3 = Consensed financial information about funds flows associated with debt and equity securities of these affiliates

4 = Information about significant restrictions on flows of funds from these enterprises to the parent enterprise

***1 = Information on the amount of funds needed for reinvestment to maintain the enterprise's operations at their current level

2 = Information on the amount of funds that could be distributed while maintaining the enterprise's operations at their current level

3. Information on the amount of funds needed for reinvestment to maintain the enterprise's operations at their current levels (Question J1)

Table IV-7 also indicates that condensed information about the operating funds flows of nonconsolidated subsidiaries (Question H1) is statistically different from information about the financing and investing activities of these enterprises (Question H2 and H3) and, therefore, is more useful.

III. COMPARISONS WITHIN ALTERNATIVES BY SUBGROUPS OF CLOs

The second research objective of this study was to determine whether the usefulness of funds disclosure alternatives is dependent on the concept of funds selected as the basis of the funds statement. The Kruskal-Wallis statistic was used to test the null hypothesis that each alternative considered in questions B-J is the same in degree of usefulness to the four subgroups of CLOs.

Appendix J-1 indicates that the null hypothesis was rejected in favor of the alternative hypothesis in nine (20.45 percent) of the forty-four tests conducted. The results of these nine tests and corresponding multiple comparisons are summarized in Table IV-8. Interpretation of multiple comparisons was discussed in a previous section of this chapter.

The small proportion of significant test results does not suggest a pervasive relationship between CLOs' funds concept preferences and the usefulness of funds disclosure alternatives. Furthermore, additional analysis strongly suggested that the differences exhibited in Table IV-8

TABLE IV-8

SIGNIFICANT COMPARISONS WITHIN ALTERNATIVES BY SUBGROUPS
OF CHIEF COMMERCIAL LOAN OFFICERS
(KRUSKAL-WALLIS)

Question: Alternative	Chi-Square	Probability (alpha)	Multiple Comparisons of Subgroups (alpha = .05)
B2: Group funds flows into (1) funds provided by operations, (2) other sources, and (3) other uses	10.173	0.017*	<u>2 1 4 3</u> **
B3: Group funds flows into (1) funds provided by operations, (2) investing activities, and (3) financing activities	11.398	0.010*	<u>1 2 3 4</u>
C1: Indirect approach of deriving funds from operations	11.483	0.009*	<u>2 1 4 3</u>
C2: Direct approach of deriv- ing funds from operations	13.774	0.003*	<u>1 2 4 3</u>
E2: Distinguish between the funds effects of extra- ordinary and normal items	10.445	0.015*	<u>2 1 3 4</u>
E8: Report gross outlays for acquisitions and gross proceeds from retirement of fixed assets	14.012	0.003*	<u>1 2 4 3</u>
E9: Report gross borrowing and gros repayment of long-term debt	11.861	0.008*	<u>2 4 1 3</u>
F3: Present a comparative funds statement for each of several preceding accounting periods	14.467	0.002*	<u>2 1 3 4</u>

TABLE IV-8 (continued)

Question:	Alternative	Chi-Square	Probability (alpha)	Multiple Comparisons of Subgroups (alpha = .05)
I2:	Supplemental disclosure detailing increases and decreases in cash	12.695	0.005*	<u>1 3 2 4</u>

* Significant at .05 level.

**1 = cash subgroup

2 = cash plus short-term securities subgroup

3 = net quick assets subgroup

4 = working capital subgroup

are of little, if any, practical significance. For example, previous discussion in this chapter indicated that the indirect method was the most useful alternative for deriving operating funds flows. Although Table IV-8 reveals significant differences between the subgroups with respect to this alternative (C2), no change in method would occur as a result of using any of the four funds concepts. This is because each subgroup rated the indirect method as most useful, although the relative strengths of their ratings differ statistically.

A similar conclusion was reached for each of the remaining eight alternatives in Table IV-8. Consequently, the results provide insufficient evidence supporting the relationship under study. One implication of this conclusion is that the previous findings of this chapter pertaining to the form and content of the funds statement may be considered without regard to the issue of funds concept.

IV. FURTHER ANALYSIS OF CLO RETURNS

As discussed in Chapter III, the questionnaire contained an additional rating-scale question (K) and two free-response questions (L and M). The purpose of these questions was to provide a basis for interpretation of subjects' responses to questions A-J.

Question K requested respondents to indicate the usefulness of six major sources of financial and/or nonfinancial information. A frequency distribution of these responses is found in Appendix F-12. The median responses included in Appendix F-12 suggest that the funds statement is a highly useful source of information (median, 8.0), but less useful than the income statement (median, 9.0), notes to the financial

statements (median, 8.6), and balance sheet (median, 8.3). Further analysis indicated that the relative ranking implied above is consistent across subgroups. Consequently, it appears that CLO responses were not biased by a lack of concern for the topic addressed in this study.

Question L requested respondents to indicate their reason(s) for selecting a particular funds concept as most useful. Responses to this question were generally superficial, indicating only that the particular concept selected provided the best basis for evaluating an applicant's ability to repay a loan. Consequently, little additional insight into user preferences regarding funds concepts was obtained.

Finally, question M requested respondents to indicate the single most significant revision that should be made to current funds-reporting practices. Responses to this question generally reiterated alternatives included in the questionnaire. However, a number of respondents indicated a desire for improvements in the following broad areas of funds-reporting:

1. Improved consistency in funds reporting between companies
2. Detail to distinguish between discretionary and non-discretionary funds flows
3. Additional detail within the funds statement or in accompanying footnotes
4. Additional comparative disclosure

V. SUMMARY OF RESULTS

The findings of this study pertain exclusively to chief commercial loan officers at the 500 largest commercial banks in the United States.

This study provides support for Opinion 19 by indicating that its provisions generally describe the most useful methods of disclosing funds flows to this user group. Aspects of the opinion for which strong support was indicated include:

1. Indirect method of deriving funds from operations
2. Offset of operating sources and uses of funds
3. Detail to distinguish between the funds effects of extraordinary and normal items
4. Disclosure of gross borrowing and repayment of long-term debt
5. Disclosure of gross outlays for acquisition and proceeds from retirement of fixed assets
6. Disclosure of separate comparative funds statements

The study also found several areas of conflict with provisions of Opinion 19 and/or where additional disclosure(s) may be appropriate.

These areas include:

1. The most useful concept of funds
2. Disclosure of nonfund financing and investing activities
3. Detail to distinguish between funds provided by continuing and discontinue operations

Finally, insufficient evidence of a relationship between the concept of funds used as the basis of the funds statement and the usefulness of funds disclosure alternatives was found. Therefore, the areas of support and exceptions noted in the preceding paragraphs can probably be considered without regard to the issue of most useful concept of funds.

VI. ADDENDUM: CFA RETURNS

In Chapter III, the low response rate from CFAs was deemed prima facie evidence of nonresponse bias in CFA returns. As a result, inferences about the population of CFAs and about comparisons between the CFA and CLO populations based on sample statistics are unreliable and inappropriate. Consequently, the data analysis presented in prior sections of this chapter was confined to the returns of CLOs.

Nevertheless, a complete set of sample statistics based on CFA returns and comparison of CFA and CLO returns was derived in accordance with the study's statistical methodology; frequency distributions of CFA responses are found in Appendix G; comparisons of alternatives by CFAs are found in Appendix I; comparisons within alternatives by subgroups of CFAs are found in Appendix J; comparisons of alternatives between CFAs and CLOs are found in Appendix K. The writer expressly cautions against use of the statistics contained in the aforementioned appendices for purposes of statistical inference. Therefore, a warning regarding nonresponse is included at the beginning of each appendix.

Although direct comparisons between the CFA and CLO survey groups based on Appendix K sample statistics are inappropriate, some similarities between the two survey groups are suggested in Table IV-9 and Table IV-10. These two tables indicate a tendency for the probability levels and disclosure preferences of CFA returns to closely parallel those of CLO returns. Similarities between investor and creditor groups would seem reasonable in light of previous descriptive studies pertaining to the financial information needs, or funds-reporting preferences

TABLE IV-9

LEVEL OF SIGNIFICANCE OF COMPARISONS OF ALTERNATIVES:
 CHIEF COMMERCIAL LOAN OFFICERS VERSUS CHARTERED
 FINANCIAL ANALYSTS
 (FRIEDMAN)

Question: Funds-Reporting Issue	Probability (alpha)	
	CLOs	CFAs
A: Concept of funds	0.080	0.003
B: Major aggregation of funds flows	0.000	0.000
C: Derivation of funds provided by operations	0.000	0.000
D: Disclosure of nonfund financing and investing activities	0.000	0.012
E: Level of detail of specific funds flows	0.000	0.000
F: Comparative funds statements	0.000	0.001
G: Funds flows within a consolidated entity	0.001	0.746
H: Funds flows of nonconsolidated affiliates	0.000	0.000
I: Schedules of changes in various categories of assets, liabilities, and equities	0.000	0.001
J: Effect of changing prices on funds available for expansion and distribution	0.014	0.516

TABLE IV-10
 MULTIPLE COMPARISONS OF ALTERNATIVES: CHIEF COMMERCIAL LOAN OFFICERS
 VERSUS CHARTERED FINANCIAL ANALYSTS

Question: Funds-Reporting Issue	Multiple Comparisons (alpha = .05)		
	CLOs	CFAs	
A: Concept of funds		<u>2 4 3 1</u>	
B: Major aggregation of funds flows	<u>2 3 1</u>	<u>3 2 1</u>	
C: Derivation of funds provided by operations	<u>1 2 5 3 4</u>	<u>1 2 3 4 5</u>	
D: Disclosure of nonfund financing and investing activities	<u>2 3 1</u>	<u>2 1 3</u>	
E: Level of detail of specific funds flows	<u>2 1 10 9 7 8 5 4 3 11 6</u>	<u>2 1 9 7 5 8 10 4 3 11 6</u>	
F: Comparative funds statements	<u>1 3 2</u>	<u>3 1 2</u>	
G: Funds flows within a consolidated entity	<u>2 1</u>		
H: Funds flows of nonconsolidated affiliates	<u>4 1 3 2</u>	<u>4 1 3 2</u>	
I: Schedules of changes in various categories of assets, liabilities, and equities	<u>7 6 3 10 8 1 4 11 2 9 5</u>	<u>7 8 6 2 3 11 10 1 4 5 9</u>	
J: Effect of changing prices on funds available for expansion and distribution	<u>1 2</u>		

of these groups (Brownlee, 1975), (Chandra, 1975), (Benjamin and Stanga, 1977). However, no attempt is made to draw any meaningful conclusions from these tables.

CHAPTER V

SUMMARY AND CONCLUSIONS

The objective of this chapter is to present a summary and conclusions of the study. The chapter includes a brief background of the study, the research problem and objectives, conclusions and implications, limitations, and suggestions for future research.

I. BACKGROUND

The funds statement has been a frequent topic of discussion in the financial literature since the early 1920's. Discussion regarding the statement, however, reached a critical focus with the issuance of APB Opinion 19 in 1971. As the first authoritative pronouncement of any type to require presentation of a funds statement in the annual reports of business enterprises, Opinion 19 became the object of intense scrutiny by the financial and academic community during the decade following its issuance. By the end of the decade the criticism directed at Opinion 19 resulted in a re-examination of the entire funds-reporting topic by the FASB.

A review of the post-Opinion 19 decade of literature provided insight concerning the critical atmosphere which evolved following Opinion 19. Some of the major individuals, organizations, and events that contributed to the statement's continued development during the decade were highlighted. Additional historical perspective was provided by a brief overview of the statement's development prior to Opinion 19.

II. RESEARCH PROBLEM AND OBJECTIVES

Despite more than a half century of development, including two authoritative pronouncements, no consensus exists regarding the most useful form and content of the funds statement. The accounting profession's predominately analytic approach to the statement during this period has apparently served only a limited role as a device for identifying and eliminating proposals which were logically inconsistent or erroneous. Moreover, the few empirical studies pertaining to funds-reporting issues have provided little substantive data to resolve the ongoing controversy.

The objectives of the study were designed to provide current research data on the preferences of selected investors (chartered financial analysts) and creditors (chief commercial loan officers) concerning the usefulness of various funds-reporting alternatives. Specifically, the objectives were intended to:

1. Determine the most useful alternative methods of disclosing funds flows to investors and creditors.
2. Determine whether the usefulness (to investors and creditors) of funds disclosure alternatives is dependent on the concept of funds selected as the underlying basis of the funds statement.
3. Determine whether funds disclosure alternatives differ in degree of usefulness to investors and creditors.

III. METHODOLOGY

Questionnaire Approach

The study's research data were collected by means of a pretested mail questionnaire administered to a random sample of chief commercial loan officers (Appendix C) and chartered financial analysts (Appendix D). The questionnaire was designed to measure the degree of usefulness associated with alternative methods of disclosing funds flows. Emphasis was placed on the issues and alternatives addressed in the 1980 FASB Discussion Memorandum, An Analysis of Issues Relating to Reporting Funds Flows, Liquidity, and Financial Flexibility.

Statistical Approach

Because of their stringent assumptions about population parameters and data measurement requirements, parametric statistical techniques were deemed inappropriate in analyzing the research data. Consequently, the following nonparametric analog techniques were employed in the data analysis:

1. Friedman two-way analysis of variance
2. Kruskal-Wallis one-way analysis of variance
3. Mann-Whitney U

In addition, the Mann-Whitney U was used to test for nonresponse bias in the research data.

IV. CONCLUSIONS AND IMPLICATIONS

Since the returns of chartered financial analysts indicated a nonresponse bias, the conclusions of this study were derived exclusively

from analysis of the returns of a sample of chief commercial loan officers from the largest 500 commercial banks in the United States. Based on the results summarized in Chapter IV, the following major conclusions were reached:

1. Although Opinion 19 has been severely criticized during the past decade, the provisions of the opinion generally reflect the most useful methods of disclosing funds flows to CLOs.
2. Major perceptual differences exist between CLOs advocating the four most prominent concepts of funds, i.e., cash, cash plus short-term securities, net quick assets, and working capital.
3. It appears that CLOs are interested in disclosure of supplemental information about funds flows in several areas, especially restrictions on flows of funds between a parent enterprise and its consolidated and nonconsolidated affiliates.
4. There is no relationship between the usefulness of funds disclosure alternatives and the concept of funds selected by CLOs as the underlying basis of the funds statement.

Perhaps the most dramatic implication of the above conclusions is that current funds-reporting guidelines are not materially deficient. Therefore, a major restructuring of the funds statement by the FASB would appear premature based on this study.

Another important implication is that controversy concerning the most useful conceptual basis of the funds statement will probably continue well into the future. However, resolution of this issue in favor of any of the four concepts of funds included in this study should not

dramatically affect other aspects of the funds statement. Perhaps more time and effort should be spent in ascertaining the most useful concept of funds and less in developing innovative formats for the funds statement.

V. LIMITATIONS OF THE STUDY

This study is subject to the limitations generally associated with survey research techniques. The study's major limitation is a direct result of the high rate of nonresponse from CFAs. As a result, no reliable inferences based on CFA sample data could be made. Consequently, the study's objectives were attained only insofar as they relate to the returns of chief commercial loan officers. Although it was concluded that CLO sample data were free of nonresponse bias, this conclusion was based on limited statistical analysis. Therefore, the presence of a degree of nonresponse bias in this data cannot be entirely rejected.

Another more subtle limitation concerns the question of functional fixation. Due to the extensive criticism of Opinion 19, many respondents were expected to have developed preferences which are not fixated on current funds reporting practices. Although no positive evidence of functional fixation was found, functional fixation cannot be entirely excluded as an alternative explanation for certain of the study's results.

VI. SUGGESTIONS FOR FUTURE RESEARCH

In conducting this study, a number of questions concerning funds reporting were raised which warrant further investigation. Following

are some of the more important areas of concern which suggest future research possibilities:

1. Are the results of this study generalizable to other user groups?
2. Are the differences between alternatives indicated in this study of practical significance, that is, do they evidence differential effects on decision making ability?
3. What specific disclosures within the funds statement are most useful and what is the relative usefulness of these disclosures among all financial information items?
4. Is the perception that the funds statement is moderately useful based on actual use of the statement, or does it reflect a general lack of knowledge about the statement and its potential usefulness?

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APPENDICES

APPENDIX A

INTRODUCTORY COVER LETTER,
FIRST MAILING

September 21, 1981

Dear Sir (Madam):

Should existing accounting practices for reporting information about funds flows be revised? Recently, the Financial Accounting Standards Board began deliberations concerning this controversial question to determine what information about funds flows should be presented in the financial statements of business enterprises.

I would sincerely appreciate your help by completing the enclosed questionnaire which addresses two important funds flows reporting issues, the most useful form and content of the funds statement and disclosure of supplemental information about funds flows. Primarily through this type of research, financial reporting will become increasingly responsive to the needs of external users of financial statements.

This study is conducted in connection with my D.B.A. dissertation at The University of Tennessee, Knoxville, and your participation is vital to its successful completion. Your responses will be kept in strict confidence; no information you submit will be identified with you or your company.

The questionnaire is designed so that it may be completed in approximately 15 minutes and a postage-paid, pre-addressed envelope is enclosed for its return. An identification number is printed on the return envelope for follow-up purposes only. A summary of the major results of the study will be sent to you if you check the appropriate box at the end of the questionnaire.

I would be happy to answer any questions you may have. Please feel free to write or call; my phone number is (615) 974-2551.

Let me express my sincere thanks for your valuable time and effort helping me to successfully complete this study.

Sincerely,

David B. Vicknair

Enclosures

APPENDIX B

INTRODUCTORY COVER LETTER,

SECOND MAILING

October 17, 1981

Dear Sir (Madam):

Several weeks ago you received a letter in which I requested your participation in a research study conducted in connection with my D.B.A. dissertation at The University of Tennessee, Knoxville. In that letter I asked that you complete and return a questionnaire which was enclosed. Since I have not yet received a response, I am again writing to request your help.

If the completed questionnaire has already been returned please accept my sincere thanks. If you have not done so, I earnestly request that you complete the enclosed questionnaire and return it to me in the enclosed postage-paid, pre-addressed envelope. Your participation is vital to the successful completion of this research study.

As was stated in the previous letter, the questionnaire addresses two important funds flows reporting issues: the most useful form and content of the funds statement and disclosure of supplemental information about funds flows. Your responses will be kept in strict confidence. An identification number is printed on the return envelope for follow-up purposes only. A summary of the major results of the study will be sent to you if you check the appropriate box at the end of the questionnaire.

If I may be of assistance please feel free to write or call; my phone number is (615) 974-2551.

Let me express my sincere thanks for your valuable time and effort helping me to successfully complete this research study.

Sincerely,

David B. Vicknair

Enclosures

APPENDIX C

QUESTIONNAIRE SENT TO CHIEF

COMMERCIAL LOAN OFFICERS

CONFIDENTIAL QUESTIONNAIRE
FOR
CHIEF COMMERCIAL LOAN OFFICERS

INSTRUCTIONS

(please detach this page)

- o The following questionnaire consists of a number of items concerning the form and content of funds statements and disclosure of supplemental information about funds flows. Next to each item is a scale to be used in evaluating the usefulness of each item based on the following criterion:

Information on funds flows is useful if it assists present and potential creditors in assessing the prospects for returns and the risks involved in alternative lending opportunities and if the benefits of reporting such information at least equal the costs involved.

- o Please evaluate each item independently and circle the response on the scale that best represents your personal opinion concerning its usefulness in reporting information on funds flows. The response scale is constructed as follows:

USEFULNESS									
LOW								HIGH	
1	2	3	4	5	6	7	8	9	

- o Please evaluate the usefulness of each item within the context of your making a typical decision to extend a term loan (maturity between 3 and 5 years) of moderate to large size to a large, publicly-held industrial company. Also, assume that you have access to the funds statement and disclosures of supplemental information about funds flows within the context of a complete set of audited, annual financial statements.

CONFIDENTIAL QUESTIONNAIRE
FOR
CHIEF COMMERCIAL LOAN OFFICERS

USEFULNESS										
LOW					HIGH					
1	2	3	4	5	6	7	8	9		

SECTIONS A THROUGH F CONCERN THE FORM AND CONTENT OF THE FUNDS STATEMENT

A. Please evaluate the usefulness of each of the following four concepts of funds used as the focus of the funds statement:

1. Cash	1	2	3	4	5	6	7	8	9
2. Cash plus short-term securities.	1	2	3	4	5	6	7	8	9
3. Net quick assets (cash, accounts receivable, and short-term securities, less current liabilities).	1	2	3	4	5	6	7	8	9
4. Working capital (current assets less current liabilities).	1	2	3	4	5	6	7	8	9

*****PLEASE READ THIS SECTION CAREFULLY*****
It is important that you base your responses in sections B through J on the one concept of funds which received the highest usefulness score in section A above. If two or more concepts of funds received the same highest usefulness score, please choose one of these tied concepts as most useful and base your responses in sections B through J on this one concept.
Please identify this concept in the following space: _____

B. Please evaluate the usefulness of each of the following three approaches for aggregating information within the funds statement:

1. Group information into two categories: (1) sources of funds (including revenues providing funds), and (2) uses of funds (including operating expenses requiring the outlay of funds).	1	2	3	4	5	6	7	8	9
--	---	---	---	---	---	---	---	---	---

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

USEFULNESS

USEFULNESS									
LOW					HIGH				
1	2	3	4	5	6	7	8	9	

- | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2. Group information into three categories: (1) funds provided by (used in) operations, (2) other sources of funds, and (3) uses of funds. . . . | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 3. Group information into three categories: (1) funds provided by (used in) operations, (2) investing activities (sources and uses of funds associated with acquisition and disposal of assets expected to be held for a long period), and (3) financing activities (sources and uses of funds associated with debt and equity securities). | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |

C. Please evaluate the usefulness of each of the following five approaches for presenting information about funds provided by (used in) operations:

- | | | | | | | | | | |
|--|---|---|---|---|---|---|---|---|---|
| 1. Begin the funds statement with net income or loss and add back or deduct items recognized in determining that income or loss which did not use or provide funds during the period (indirect method) | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 2. Begin the funds statement with total revenue that provided funds and deduct operating expenses that required the outlay of funds during the period (direct method) | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 3. Begin the funds statement with the figure "Funds Provided by (Used in) Operations" and include a <u>note</u> showing how it was derived using the <u>indirect method</u> | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 4. Begin the funds statement with the figure "Funds Provided by (Used in) Operations" and include a <u>note</u> showing how it was derived using the <u>direct method</u> | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

		USEFULNESS									
		LOW					HIGH				
		1	2	3	4	5	6	7	8	9	
5.	Report revenues providing funds as sources of funds and operating expenses requiring the outlay of funds as <u>uses</u> of funds.	1	2	3	4	5	6	7	8	9	
D. Please evaluate the <u>usefulness</u> of each of the following three approaches for reporting transactions that have <u>no impact</u> on funds (for example, the acquisition of property in exchange for the assumption of long-term debt, or the exchange of long-term debt for common stock):											
1.	Report these transactions in the body of the funds statement	1	2	3	4	5	6	7	8	9	
2.	Report these transactions in supplementary schedules disclosing detailed changes in related categories of assets, liabilities, and equities . . .	1	2	3	4	5	6	7	8	9	
3.	Report these transactions in a note to the financial statements.	1	2	3	4	5	6	7	8	9	
E. Please evaluate the <u>usefulness</u> of <u>each</u> of the following eleven examples of detail within the funds statement:											
1.	Distinguish between funds provided by (used in) continuing operations <u>and</u> funds provided by (used in) discontinued operations.	1	2	3	4	5	6	7	8	9	
2.	Distinguish between funds flows associated with extraordinary items and ordinary funds flows	1	2	3	4	5	6	7	8	9	
3.	Report operating expenses requiring the outlay of funds as <u>one figure</u> . .	1	2	3	4	5	6	7	8	9	
4.	Report those expenses and revenues which were used in determining net income or loss, but did <u>not</u> use or provide funds as <u>one figure</u>	1	2	3	4	5	6	7	8	9	

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

USEFULNESS

USEFULNESS									
LOW	1	2	3	4	5	6	7	8	HIGH
1	2	3	4	5	6	7	8	9	

5. Report operating expenses requiring the outlay of funds by major functional category. 1 2 3 4 5 6 7 8 9
6. Report all purchases of long-term assets (for example, investments, property, intangibles) as one figure 1 2 3 4 5 6 7 8 9
7. Distinguish between investments in (disposals of) assets required for operating purposes and other investments in (disposals of) assets. 1 2 3 4 5 6 7 8 9
8. Report gross outlays for acquisitions and gross proceeds from retirement of property, plant, and equipment. 1 2 3 4 5 6 7 8 9
9. Report gross borrowing and gross repayment of long-term debt 1 2 3 4 5 6 7 8 9
10. Report borrowing and repayment of long-term debt for each main type of indebtedness (for example, notes, mortgages, debentures) 1 2 3 4 5 6 7 8 9
11. Report borrowing and repayment of long-term debt as one figure 1 2 3 4 5 6 7 8 9

F. Please evaluate the usefulness of each of the following three approaches for presenting information about funds flows for comparison purposes:

1. Present the funds statement for the preceding accounting period. 1 2 3 4 5 6 7 8 9
2. Present a funds statement providing aggregate information for several preceding accounting periods 1 2 3 4 5 6 7 8 9
3. Present the funds statement for each of several preceding accounting periods. 1 2 3 4 5 6 7 8 9

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

SECTIONS G THROUGH J CONCERN DISCLOSURE OF SUPPLEMENTAL
INFORMATION ABOUT FUNDS FLOWS

		USEFULNESS									
		LOW					HIGH				
		1	2	3	4	5	6	7	8	9	
G.	Please evaluate the usefulness of each of the following two disclosures about funds flows within a <u>consolidated</u> entity:										
	1. Information to distinguish between those business segments that generate funds and those business segments that use funds	1	2	3	4	5	6	7	8	9	
	2. Information about significant restrictions on the ability of an enterprise to transfer net inflows of funds to its consolidated subsidiaries and to owners.	1	2	3	4	5	6	7	8	9	
H.	Please evaluate the usefulness of each of the following four disclosures about the funds flows of a parent enterprise's nonconsolidated subsidiaries and affiliated enterprises (for example, enterprises that are less than 50% owned):										
	1. Condensed financial information about the funds from operations generated by these enterprises.	1	2	3	4	5	6	7	8	9	
	2. Condensed financial information about funds flows associated with acquisitions of long-term assets by these enterprises	1	2	3	4	5	6	7	8	9	
	3. Condensed financial information about funds flows associated with debt and equity securities of these enterprises	1	2	3	4	5	6	7	8	9	
	4. Information about significant restrictions on flows of funds from these enterprises to the parent enterprise	1	2	3	4	5	6	7	8	9	

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

USEFULNESS

LOW
1 2 3 4 5 6 7 8 9
HIGH

I. Please evaluate the usefulness of a supplementary disclosure detailing increases and decreases in each of the following eleven categories of assets, liabilities, and equities (individual immaterial increases and decreases would be combined):

1. Current assets, excluding cash 1 2 3 4 5 6 7 8 9
2. Cash 1 2 3 4 5 6 7 8 9
3. Property, plant, and equipment 1 2 3 4 5 6 7 8 9
4. Other long-term investments (for example, investments in stocks and bonds) 1 2 3 4 5 6 7 8 9
5. Intangible assets (for example, patents and goodwill). 1 2 3 4 5 6 7 8 9
6. Short-term debt instruments. 1 2 3 4 5 6 7 8 9
7. Long-term debt instruments 1 2 3 4 5 6 7 8 9
8. Equity securities. 1 2 3 4 5 6 7 8 9
9. Spontaneous debt (for example, accounts, taxes, and wages payable) . . . 1 2 3 4 5 6 7 8 9
10. Components of working capital (increases and decreases in each component). 1 2 3 4 5 6 7 8 9
11. Components of working capital (net changes in each component). 1 2 3 4 5 6 7 8 9

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

USEFULNESS									
LOW					HIGH				
1	2	3	4	5	6	7	8	9	

J. Please evaluate the usefulness of each of the following two disclosures about the effects of changing prices on funds flows available for expansion and distribution:

1. Information on the amount of funds needed for reinvestment to maintain the enterprise's operations at their current level 1 2 3 4 5 6 7 8 9
2. Information on the amount of funds that could be distributed while maintaining the enterprise's operations at their current level 1 2 3 4 5 6 7 8 9

Please respond to the following three questions which will provide the researcher with a frame of reference for interpreting your responses in prior sections.

K. Please evaluate the usefulness of the financial and/or nonfinancial information provided by each of the following six sources, as they are currently prepared, in making a typical term loan lending decision:

- a. Balance Sheet. 1 2 3 4 5 6 7 8 9
- b. Income Statement and Statement of Retained Earnings. 1 2 3 4 5 6 7 8 9
- c. Statement of Changes in Financial Position (funds statement) 1 2 3 4 5 6 7 8 9
- d. Notes to the financial statements. 1 2 3 4 5 6 7 8 9

USEFULNESS										
LOW					HIGH					
1	2	3	4	5	6	7	8	9		
e. Information other than in a thru d above included in the annual report .										
1	2	3	4	5	6	7	8	9		
f. All other sources of information outside the annual report										
1	2	3	4	5	6	7	8	9		

L. In sections B through J of the questionnaire you responded on the basis of one most useful concept of funds. In the space provided below (or attach a separate sheet), please give your reason or reasons for preferring this concept.

M. In your opinion what is the single most significant revision that should be made to current accounting practices for reporting information on funds flows? Please respond in the space provided below (or attach a separate sheet).

THANK YOU FOR YOUR HELP COMPLETING THIS QUESTIONNAIRE.
Please check this box if you desire a summary of the major results of the study. . . ☐

PLEASE RETURN TO David B. Vicknair
Department of Accounting and Business Law
The University of Tennessee
Knoxville, Tennessee 37916
(postage-paid, pre-addressed envelope enclosed)

APPENDIX D

QUESTIONNAIRE SENT TO CHARTERED
FINANCIAL ANALYSTS

CONFIDENTIAL QUESTIONNAIRE

FOR

CHARTERED FINANCIAL ANALYSTS

INSTRUCTIONS

(please detach this page)

- o The following questionnaire consists of a number of items concerning the form and content of funds statements and disclosure of supplemental information about funds flows. Next to each item is a scale to be used in evaluating the usefulness of each item based on the following criterion:

Information on funds flows is useful if it assists present and potential investors in assessing the prospects for returns and the risks involved in alternative investment opportunities and if the benefits of reporting such information at least equal the costs involved.

- o Please evaluate each item independently and circle the response on the scale that best represents your personal opinion concerning its usefulness in reporting information on funds flows. The response scale is constructed as follows:

USEFULNESS									
LOW					HIGH				
1	2	3	4	5	6	7	8	9	

- o Please evaluate the usefulness of each item within the context of your making a typical decision to buy, sell, or hold a small (non-controlling) number of common shares in a large, publicly-held industrial company. Also, assume that you have access to the funds statement and disclosures of supplemental information about funds flows within the context of a complete set of audited, annual financial statements.

CONFIDENTIAL QUESTIONNAIRE
FOR
CHARTERED FINANCIAL ANALYSTS

USEFULNESS									
LOW					HIGH				
1	2	3	4	5	6	7	8	9	

SECTIONS A THROUGH F CONCERN THE FORM AND CONTENT OF THE FUNDS STATEMENT

A. Please evaluate the usefulness of each of the following four concepts of funds used as the focus of the funds statement:

1. Cash	1	2	3	4	5	6	7	8	9
2. Cash plus short-term securities.	1	2	3	4	5	6	7	8	9
3. Net quick assets (cash, accounts receivable, and short-term securities, less current liabilities).	1	2	3	4	5	6	7	8	9
4. Working capital (current assets less current liabilities).	1	2	3	4	5	6	7	8	9

*****PLEASE READ THIS SECTION CAREFULLY*****
It is important that you base your responses in sections B through J on the one concept of funds which received the highest usefulness score in section A above. If two or more concepts of funds received the same highest usefulness score, please choose one of these tied concepts as most useful and base your responses in sections B through J on this one concept.
Please identify this concept in the following space: _____

B. Please evaluate the usefulness of each of the following three approaches for aggregating information within the funds statement:

1. Group information into two categories: (1) sources of funds (including revenues providing funds), and (2) uses of funds (including operating expenses requiring the outlay of funds).	1	2	3	4	5	6	7	8	9
--	---	---	---	---	---	---	---	---	---

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

USEFULNESS									
LOW					HIGH				
1	2	3	4	5	6	7	8	9	

5. Report revenues providing funds as sources of funds and operating expenses requiring the outlay of funds as uses of funds. 1 2 3 4 5 6 7 8 9

D. Please evaluate the usefulness of each of the following three approaches for reporting transactions that have no impact on funds (for example, the acquisition of property in exchange for the assumption of long-term debt, or the exchange of long-term debt for common stock):

- | | | | | | | | | | |
|--|---|---|---|---|---|---|---|---|---|
| 1. Report these transactions in the body of the funds statement | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 2. Report these transactions in supplementary schedules disclosing detailed changes in related categories of assets, liabilities, and equities . . . | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 3. Report these transactions in a note to the financial statements. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |

E. Please evaluate the usefulness of each of the following eleven examples of detail within the funds statement:

- | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. Distinguish between funds provided by (used in) continuing operations and funds provided by (used in) discontinued operations. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 2. Distinguish between funds flows associated with extraordinary items and ordinary funds flows | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 3. Report operating expenses requiring the outlay of funds as <u>one figure</u> . . | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 4. Report those expenses and revenues which were used in determining net income or loss, but did <u>not</u> use or provide funds as <u>one figure</u> | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

	USEFULNESS									
	LOW					HIGH				
	1	2	3	4	5	6	7	8	9	
5. Report operating expenses requiring the outlay of funds by major functional category.	1	2	3	4	5	6	7	8	9	
6. Report all purchases of long-term assets (for example, investments, property, intangibles) as <u>one figure</u>	1	2	3	4	5	6	7	8	9	
7. Distinguish between investments in (disposals of) assets required for operating purposes and <u>other investments</u> in (disposals of) assets.	1	2	3	4	5	6	7	8	9	
8. Report gross outlays for acquisitions and <u>gross proceeds</u> from retirement of property, plant, and equipment.	1	2	3	4	5	6	7	8	9	
9. Report gross borrowing and <u>gross repayment</u> of long-term debt	1	2	3	4	5	6	7	8	9	119
10. Report borrowing and repayment of long-term debt for each main type of indebtedness (for example, notes, mortgages, debentures)	1	2	3	4	5	6	7	8	9	
11. Report borrowing and repayment of long-term debt as <u>one figure</u>	1	2	3	4	5	6	7	8	9	

F. Please evaluate the usefulness of each of the following three approaches for presenting information about funds flows for comparison purposes:

1. Present the funds statement for the preceding accounting period.	1	2	3	4	5	6	7	8	9
2. Present a funds statement providing <u>aggregate</u> information for several preceding accounting periods	1	2	3	4	5	6	7	8	9
3. Present the funds statement for <u>each</u> of several preceding accounting periods.	1	2	3	4	5	6	7	8	9

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

SECTIONS G THROUGH J CONCERN DISCLOSURE OF SUPPLEMENTAL
INFORMATION ABOUT FUNDS FLOWS

USEFULNESS									

IMPORTANT REMINDER: Please continue to base your responses in sections B through J on the most useful concept of funds.

USEFULNESS										
LOW										
1 2 3 4 5 6 7 8 9										
HIGH										
I. Please evaluate the usefulness of a supplementary disclosure detailing increases and decreases in each of the following eleven categories of assets, liabilities, and equities (individual immaterial increases and decreases would be combined):										
1.	Current assets, excluding cash	1	2	3	4	5	6	7	8	9
2.	Cash	1	2	3	4	5	6	7	8	9
3.	Property, plant, and equipment	1	2	3	4	5	6	7	8	9
4.	Other long-term investments (for example, investments in stocks and bonds)	1	2	3	4	5	6	7	8	9
5.	Intangible assets (for example, patents and goodwill).	1	2	3	4	5	6	7	8	9
6.	Short-term debt instruments.	1	2	3	4	5	6	7	8	9
7.	Long-term debt instruments	1	2	3	4	5	6	7	8	9
8.	Equity securities.	1	2	3	4	5	6	7	8	9
9.	Spontaneous debt (for example, accounts, taxes, and wages payable) . . .	1	2	3	4	5	6	7	8	9
10.	Components of working capital (increases and decreases in each component).	1	2	3	4	5	6	7	8	9
11.	Components of working capital (net changes in each component).	1	2	3	4	5	6	7	8	9

	USEFULNESS									
	LOW					HIGH				
e. Information other than in a thru d above included in the annual report .	1	2	3	4	5	6	7	8	9	
f. All other sources of information outside the annual report	1	2	3	4	5	6	7	8	9	

L. In sections B through J of the questionnaire you responded on the basis of one most useful concept of funds. In the space provided below (or attach a separate sheet), please give your reason or reasons for preferring this concept.

M. In your opinion what is the single most significant revision that should be made to current accounting practices for reporting information on funds flows? Please respond in the space provided below (or attach a separate sheet).

THANK YOU FOR YOUR HELP COMPLETING THIS QUESTIONNAIRE.
Please check this box if you desire a summary of the major results of the study. . . ☐

PLEASE RETURN TO David B. Vicknair
Department of Accounting and Business Law
The University of Tennessee
Knoxville, Tennessee 37916
(postage-paid, pre-addressed envelope enclosed)

APPENDIX E

LEVEL OF SIGNIFICANCE OF EARLY
VERSUS LATE RESPONDENTS

TABLE E-1

LEVEL OF SIGNIFICANCE OF CLO
EARLY VERSUS LATE RESPONSES
(MANN-WHITNEY U)

Alternative	Z (negative)	Probability (2-tailed)
A1	0.6993	.4844
A2	0.5484	.5834
A3	1.2484	.2119
A4	0.7516	.4523
B1	1.9914	.0464*
B2	2.2497	.0245*
B3	1.1858	.2357
C1	0.4261	.6700
C2	0.7212	.4708
C3	1.5262	.1270
C4	1.7828	.0746
C5	0.5786	.5629
D1	0.0383	.9695
D2	1.5661	.1173
D3	0.3973	.6911
E1	0.3910	.6958
E2	0.4814	.6303
E3	1.3139	.1889
E4	0.2058	.8369
E5	0.4264	.6698
E6	0.5428	.5873
E7	0.9559	.3391
E8	1.0719	.2838
E9	1.6502	.0989
E10	0.6199	.5353
E11	0.8727	.3838
F1	0.0275	.0275*
F2	0.8942	.8942
F3	0.6095	.5422
G1	0.2868	.7743
G2	0.6120	.5402

TABLE E-1 (continued)

Alternative	Z (negative)	Probability (2-tailed)
H1	0.9401	.3472
H2	1.4854	.1372
H3	0.6262	.5312
H4	0.0749	.9403
I1	2.2707	.0232*
I2	1.0479	.2947
I3	0.9484	.3429
I4	0.1200	.9045
I5	0.8454	.3979
I6	1.2164	.2239
I7	1.1600	.2460
I8	0.9480	.3432
I9	0.7527	.4516
I10	0.0628	.9499
I11	0.0686	.9453
J1	1.0989	.2718
J2	0.5499	.5824
K1	0.5657	.5716
K2	0.0682	.9456
K3	0.4610	.6448
K4	0.2123	.8319
K5	1.1065	.2685
K6	0.7714	.4405

*Significant at .05 level.

TABLE E-2

LEVEL OF SIGNIFICANCE OF CFA
EARLY VERSUS LATE RESPONSES
(MANN-WHITNEY U)

Alternative	Z (negative)	Probability (2-tailed)
A1	1.0600	.2891
A2	0.2695	.7875
A3	0.9126	.3614
A4	0.2050	.8376
B1	0.2701	.7871
B2	0.7439	.4569
B3	0.9373	.3486
C1	0.2127	.8316
C2	0.1972	.8437
C3	0.2255	.8216
C4	0.8233	.4104
C5	1.2109	.2259
D1	0.2947	.7682
D2	0.2516	.8014
D3	0.4971	.6191
E1	1.6608	.0968
E2	1.7916	.0732
E3	0.7623	.4459
E4	0.8204	.8032
E5	0.6182	.5364
E6	0.0624	.9503
E7	0.7263	.4676
E8	0.4069	.6841
E9	0.0939	.9252
E10	0.4846	.6280
E11	2.1893	.0286*
F1	0.3432	.7315
F2	2.4018	.0163*
F3	0.5811	.5612
G1	0.0606	.9517
G2	0.6209	.5347

TABLE E-2 (continued)

Alternative	Z (negative)	Probability (2-tailed)
H1	1.4094	.1587
H2	0.4952	.6204
H3	0.6956	.4864
H4	1.2940	.1957
I1	0.1497	.8810
I2	0.5082	.6113
I3	1.3879	.1652
I4	0.5888	.5560
I5	0.0000	1.0000
I6	0.3147	.7530
I7	0.7072	.4794
I8	0.4556	.6487
I9	0.4230	.6723
I10	0.6295	.5290
I11	1.5028	.1329
J1	0.7219	.4704
J2	1.4692	.1418
K1	0.7282	.4665
K2	1.2493	.2116
K3	2.1145	.0345*
K4	0.9167	.3593
K5	1.0854	.2777
K6	0.2210	.8251

*Significant at .05 level.

APPENDIX F

FREQUENCY DISTRIBUTIONS OF RESPONSES BY
CHIEF COMMERCIAL LOAN OFFICERS

TABLE F-1
FUNDS CONCEPT SELECTED BY CLOs
AS MOST USEFUL

	Frequency	Percent
Cash	28	25.9
Cash plus short-term securities	12	11.1
Net quick assets	22	20.4
Working capital	<u>46</u>	<u>42.6</u>
Total	108	100.0

Comment: A most preferred concept of funds could not be determined for 5 respondents.

TABLE F-2

CLO QUESTION A: PLEASE EVALUATE THE USEFULNESS OF THE FOLLOWING FOUR CONCEPTS
OF FUNDS USED AS THE FOCUS OF THE FUNDS STATEMENT

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Cash	0 0.0	6 5.3	17 15.0	10 8.8	17 15.0	9 8.0	21 18.6	6 5.3	27 23.9	113 100 6.7
2. Cash plus short-term securities	3 2.7	6 5.3	6 5.3	14 12.4	21 18.6	15 13.3	19 16.8	16 14.2	13 11.5	113 100 6.4
3. Net quick assets	4 3.5	4 3.5	9 8.0	10 8.8	17 15.0	15 13.3	23 20.4	19 16.8	12 10.6	113 100 6.8
4. Working capital	3 2.7	2 1.8	6 5.3	8 7.1	13 11.5	14 12.4	26 23.0	21 18.6	20 17.7	113 100 7.4

TABLE F-3

CLO QUESTION B: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING THREE APPROACHES
FOR AGGREGATING INFORMATION WITHIN THE FUNDS STATEMENT

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Group information into two categories: (1) sources of funds, and (2) uses of funds	2 1.8	5 4.5	12 10.7	5 4.5	28 25.0	17 15.2	22 19.6	13 11.6	8 7.1	112 100 6.2
2. Group information into three categories: (1) funds pro- vided by operations, (2) other sources of funds, and (3) uses of funds	2 1.8	1 0.9	4 3.6	4 3.6	21 18.8	16 14.3	27 24.1	22 19.6	15 13.4	112 100 7.3
3. Group information into three categories: (1) funds provided by operations, (2) financing activities, and (3) investing activities	0 0.0	0 0.0	16 14.2	6 5.3	8 7.1	12 10.6	23 20.4	27 23.9	21 18.6	113 100 7.6

TABLE F-4

CLO QUESTION C: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING FIVE APPROACHES FOR PRESENTING INFORMATION ABOUT FUNDS PROVIDED BY (USED IN) OPERATIONS

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Begin the funds statement with net income or loss, and add back or deduct items recognized in determining that income or loss which did not use or provide funds during the period (indirect method)	3 2.7	0 0.0	5 4.4	6 5.3	14 12.4	21 18.6	21 18.6	27 23.9	16 14.2	113 100 7.4
2. Begin the funds statement with total revenue that provided funds and deduct operating expenses that required the outlay of funds during the period (direct method)	3 2.7	4 3.5	11 9.7	20 17.7	24 21.2	16 14.2	16 14.2	16 14.2	3 2.7	113 100 5.8
3. Begin the funds statement with the figure "Funds Provided by (Used in) Operations" and include a note showing how it was derived using the indirect method	3 2.7	11 9.7	12 10.6	20 17.7	29 25.7	20 17.7	12 10.6	3 2.7	3 2.7	113 100 5.4

TABLE F-4 (continued)

Frequency Row Percent Median	One 1.	Two 2.	Three 3.	Four 4.	Five 5.	Six 6.	Seven 7.	Eight 8.	Nine 9.	Total
4. Begin the funds statement with the figure "Funds Provided by (Used in) Operations" and include a note showing how it was derived using the direct method	4 3.5	11 9.7	18 15.9	20 17.7	28 24.8	11 9.7	11 9.7	8 7.1	2 1.8	113 100 5.1
5. Report revenues providing funds as sources of funds and operating expenses requiring the outlay of funds as uses of funds	7 6.3	13 11.6	15 13.4	13 11.6	22 19.6	10 8.9	13 11.6	13 11.6	6 5.4	112 100 5.4 134

TABLE F-5

CLO QUESTION D: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING THREE APPROACHES FOR REPORTING TRANSACTIONS THAT HAVE NO IMPACT ON FUNDS

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Report these transactions in the body of the funds statement	5 4.5	9 8.0	13 11.6	14 12.5	27 24.1	7 6.3	13 11.6	17 15.2	7 6.3	112 100 5.6
2. Report these transactions in supplementary schedules disclosing detailed changes in related categories of assets, liabilities, and equities	1 0.9	2 1.8	5 4.5	4 5.4	21 18.8	15 13.4	26 23.2	25 22.3	11 9.8	112 100 7.2
3. Report these transactions in a note to the financial statements	5 4.5	9 8.0	13 11.6	10 8.9	23 20.5	7 6.3	19 17.0	20 17.9	6 5.4	112 100 5.8

TABLE F-6

CLO QUESTION E: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING
ELEVEN EXAMPLES OF DETAIL WITHIN THE FUNDS STATEMENT

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Distinguish between funds provided by continuing operations and funds provided by discontinued operations	0 0.0	1 0.9	4 3.6	7 6.3	14 12.5	10 8.9	27 24.1	35 31.3	14 12.5	112 100 7.7
2. Distinguish between funds flows associated with extraordinary items and ordinary funds flows	0 0.0	1 0.9	1 0.9	3 2.7	9 8.1	15 13.5	32 28.8	36 32.4	14 12.6	111 100 7.8
3. Report operating expenses requiring the outlay of funds as one figure	11 10.0	12 10.9	24 21.8	15 13.6	22 20.0	13 11.8	7 6.4	6 5.5	0 0.0	110 100 4.5
4. Report those expenses and revenues which were used in determining net income or loss, but did not use or provide funds as one figure	8 7.3	12 11.0	18 16.5	16 14.7	27 24.8	12 11.0	10 9.2	5 4.6	1 0.9	109 100 5.0
5. Report operating expenses requiring the outlay of funds by major functional category	3 2.7	3 2.7	11 9.9	12 10.8	15 13.5	20 18.0	32 28.8	11 9.9	4 3.6	111 100 6.6

TABLE F-6 (continued)

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1.	1.	2.	3.	4.	5.	6.	7.	8.	9.	
6. Report all purchases of long-term assets as one figure	14 12.6	20 18.0	27 24.3	23 20.7	7 6.3	7 6.3	10 9.0	3 2.7	0 0.0	111 100 3.8
7. Distinguish between investments in assets required for operating purposes and other investments in assets	1 0.9	1 0.9	5 4.5	6 5.4	16 14.4	25 22.5	35 31.5	17 15.3	5 4.5	111 100 7.0
8. Report gross outlays for acquisitions and gross proceeds from retirement of property, plant, and equipment	0 0.0	4 3.6	6 5.5	7 6.4	20 20.0	23 20.9	31 28.2	13 11.8	4 3.6	110 100 6.7
9. Report gross borrowing and gross repayment of long-term debt	0 0.0	2 1.8	5 4.5	4 3.6	19 17.0	14 12.5	3 29.5	26 23.2	9 8.0	112 100 7.4
10. Report borrowing and repayment of long-term debt for each main type of indebtedness	1 0.9	1 0.9	8 7.2	8 7.2	12 10.8	17 15.3	27 24.3	21 18.9	16 14.4	111 100 7.3
11. Report borrowing and repayment of long-term debt as one figure	15 13.4	25 22.3	27 24.1	16 14.3	13 11.6	4 3.6	8 7.1	4 3.6	0 0.0	112 100 3.6

TABLE F-7

CLO QUESTION F: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING THREE APPROACHES
FOR PRESENTING INFORMATION ABOUT FUNDS FLOWS FOR COMPARISON PURPOSES

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Present the funds statement for the preceding accounting period	1 0.9	2 1.8	3 2.7	5 4.5	8 7.2	21 18.9	35 31.5	22 19.8	14 12.6	111 100 7.4
2. Present a funds statement providing aggregate informa- tion for several preceding accounting periods	8 7.3	10 9.1	18 16.4	13 11.8	23 20.9	18 16.4	10 9.1	9 8.2	1 0.9	110 100 5.3 138
3. Present the funds statement for each of several preced- ing accounting periods	2 1.8	2 1.8	6 5.4	13 11.7	14 12.6	12 10.8	18 16.2	25 22.5	19 17.1	111 100 7.4

TABLE F-8

CLO QUESTION G: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING TWO DISCLOSURES ABOUT FUNDS FLOWS WITHIN A CONSOLIDATED ENTITY

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Information to distinguish between those business segments that generate funds and those business segments that use funds	0 0.0	1 0.9	3 2.7	4 3.5	18 15.9	26 23.0	24 21.2	24 21.2	13 11.5	113 100 7.2
2. Information about significant restrictions on the ability of an enterprise to transfer net inflows of funds to its consolidated subsidiaries and to owners	1 0.9	2 1.8	2 1.8	4 3.5	10 8.8	10 8.8	23 20.4	38 33.6	23 20.4	113 100 8.1

TABLE F-9

CLO QUESTION H: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING FOUR DISCLOSURES ABOUT THE FUNDS FLOWS OF A PARENT ENTERPRISE'S NONCONSOLIDATED SUBSIDIARIES AND AFFILIATED ENTERPRISES

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Condensed financial information about the funds from operations generated by these enterprises	1 0.9	4 3.6	3 2.7	7 6.3	20 17.9	18 16.1	31 27.7	18 16.1	10 8.9	112 100 7.1
2. Condensed financial information about funds flows associated with acquisitions of long-term assets by these enterprises	0 0.0	5 4.5	8 7.1	19 17.0	34 30.4	21 18.8	17 15.2	5 4.5	3 2.7	112 100 5.7
3. Condensed financial information about funds flows associated with debt and equity securities of these enterprises	0 0.0	3 2.7	8 7.1	13 11.6	35 31.3	24 21.4	18 16.1	8 7.1	3 2.7	112 100 5.9
4. Information about significant restrictions on flows of funds from these enterprises to the parent enterprise	1 0.9	2 1.8	0 0.0	3 2.7	11 9.8	14 12.5	36 32.1	28 25.0	17 5.2	112 100 7.7

TABLE F-10

CLO QUESTION 1: PLEASE EVALUATE THE USEFULNESS OF A SUPPLEMENTARY DISCLOSURE
 DETAILING INCREASES AND DECREASES IN EACH OF THE FOLLOWING
 ELEVEN CATEGORIES OF ASSETS, LIABILITIES, AND EQUITIES

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Current assets, excluding cash	0 0.0	7 6.2	11 9.7	10 8.8	12 10.6	14 12.4	20 17.7	28 24.8	11 9.7	113 100 7.1
2. Cash	3 2.7	11 9.7	16 14.2	13 11.5	17 15.0	13 11.5	11 9.7	13 11.5	16 14.2	113 100 5.8 141
3. Property, plant, and equipment	0 0.0	3 2.7	5 4.4	8 7.1	15 13.3	22 19.5	28 24.8	18 15.9	14 12.4	113 100 7.1
4. Other long-term investments	0 0.0	4 3.5	6 5.3	8 7.1	31 27.4	17 15.0	24 21.2	17 15.0	6 5.3	113 100 6.4
5. Intangible assets	3 2.7	8 7.1	21 18.6	15 13.3	33 29.2	12 10.6	9 8.0	8 7.1	4 3.5	113 100 5.3
6. Short-term debt instruments	0 0.0	5 4.5	7 6.3	7 6.3	11 9.8	16 14.3	29 25.9	24 21.4	13 11.6	112 100 7.3

TABLE F-10 (continued)

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
	1.	2.	3.	4.	5.	6.	7.	8.	9.	
7. Long-term debt instruments	0	4	3	6	9	12	33	30	16	113
	0.0	3.5	2.7	5.3	8.0	10.6	29.2	26.5	14.2	100
										7.7
8. Equity securities	0	5	5	9	16	14	31	22	10	112
	0.0	4.5	4.5	8.0	14.3	12.5	27.7	19.6	8.9	100
										7.2
9. Spontaneous debt	1	7	15	13	21	19	18	11	5	110
	0.9	6.4	13.6	11.8	19.1	17.3	16.4	10.0	4.5	100
										5.9
10. Increases and decreases in each component of working capital	0	5	9	7	18	12	21	25	14	111
	0.0	4.5	8.1	6.3	16.2	10.8	18.9	22.5	12.6	100
										7.2
11. Net change in each component of working capital	0	5	9	13	21	18	18	15	12	111
	0.0	4.5	8.1	11.7	18.9	16.2	16.2	13.5	10.8	100
										6.4

TABLE F-11

CLO QUESTION J: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING
TWO DISCLOSURES ABOUT THE EFFECTS OF CHANGING PRICES ON
FUNDS AVAILABLE FOR EXPANSION AND DISTRIBUTION

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Information on the amount of funds needed for reinvest- ment to maintain the enter- prise's operations at their current level	0 0.0	3 2.7	7 6.2	4 3.5	11 9.7	17 15.0	33 29.2	21 18.6	17 15.0	113 100 7.4
2. Information on the amount of funds that could be distrib- uted while maintaining the the enterprise's operations at their current level	0 0.0	3 2.7	12 10.6	11 9.7	15 13.3	20 17.7	26 23.0	15 13.3	11 9.7	113 100 6.8

TABLE F-12

CLO QUESTION K: PLEASE EVALUATE THE USEFULNESS OF THE FINANCIAL AND/OR NONFINANCIAL INFORMATION PROVIDED BY EACH OF THE FOLLOWING SIX SOURCES, AS THEY ARE CURRENTLY PREPARED, IN MAKING A TYPICAL TERM LOAN DECISION

Frequency Row Percent Median	One 1.	Two 2.	Three 3.	Four 4.	Five 5.	Six 6.	Seven 7.	Eight 8.	Nine 9.	Total
1. Balance sheet	0 0.0	0 0.0	1 0.9	0 0.0	3 2.7	18 15.9	26 23.0	26 23.0	39 34.5	113 100 8.3
2. Income statement	0 0.0	0 0.0	1 0.9	0 0.0	0 0.0	10 8.8	15 13.3	32 28.2	55 48.7	113 100 9.0
3. Statement of changes in financial position	0 0.0	0 0.0	3 2.7	4 3.5	11 9.7	19 16.8	19 16.8	31 27.4	26 23.0	113 100 8.0
4. Notes to the financial statements	0 0.0	0 0.0	2 1.8	4 3.5	8 7.1	13 11.5	13 11.5	30 26.5	43 38.1	113 100 8.6
5. Information other than in 1 thru 4 above included in the annual report	0 0.0	0 0.0	7 6.2	16 14.2	27 23.9	21 18.6	22 19.5	13 11.5	7 6.2	113 100 6.3
6. All other sources of infor- mation outside the annual report	0 0.0	1 0.9	3 2.7	9 8.0	26 23.0	18 15.9	26 23.0	13 11.5	17 15.0	113 100 7.0

APPENDIX G

FREQUENCY DISTRIBUTIONS OF RESPONSES BY CHARTERED FINANCIAL ANALYSTS

Note: The sample statistics in this appendix are subject to nonresponse bias and should not be utilized for purposes of statistical inference.

TABLE G-1
FUNDS CONCEPT SELECTED BY CFAs
AS MOST USEFUL

	Frequency	Percent
Cash	4	11.4
Cash plus short-term securities	12	34.3
Net quick assets	8	22.9
Working capital	<u>11</u>	<u>31.4</u>
Total	38	100.0

Comment: The most useful concept of funds could not be determined for 3 respondents.

TABLE G-2

CFA QUESTION A: PLEASE EVALUATE THE USEFULNESS OF THE FOLLOWING FOUR CONCEPTS
OF FUNDS USED AS THE FOCUS OF THE FUNDS STATEMENT

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Cash	2 5.4	4 10.8	4 10.8	5 13.5	4 10.8	4 10.8	4 10.8	3 8.1	7 18.9	37 100 5.9
2. Cash plus short-term securities	1 2.7	0 0.0	1 2.7	3 8.1	3 8.1	4 10.8	5 13.5	8 21.6	12 32.4	37 100 8.2
3. Net quick assets	0 0.0	2 5.4	0 0.0	3 8.1	9 24.3	4 10.8	8 21.6	7 18.9	4 10.8	37 100 7.1
4. Working capital	1 2.7	2 5.4	2 5.4	1 2.7	4 10.8	3 8.1	9 24.3	10 27.0	5 13.5	37 100 7.6

TABLE G-3

CFA QUESTION B: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING THREE APPROACHES FOR AGGREGATING INFORMATION WITHIN THE FUNDS STATEMENT

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Group information into two categories: (1) sources of funds, and (2) uses of funds	1 2.6	2 5.3	3 7.9	5 13.2	8 21.1	6 15.8	9 23.7	3 7.9	1 2.6	38 100 6.0
2. Group information into three categories: (1) funds provided by operations, (2) other sources of funds, and (3) uses of funds	0 0.0	2 5.3	0 0.0	3 7.9	4 10.5	7 18.4	13 34.2	6 15.8	3 7.9	38 100 7.2
3. Group information into three categories: (1) funds provided by operations, (2) financing activities, and (3) investing activities	1 2.6	0 0.0	1 2.6	2 5.3	4 10.5	3 7.9	10 26.3	7 18.4	10 26.3	38 100 7.8

TABLE G-4

CFA QUESTION C: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING FIVE APPROACHES
FOR PRESENTING INFORMATION ABOUT FUNDS PROVIDED BY (USED IN) OPERATIONS

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Begin the funds statement with net income or loss, and add back or deduct items recognized in determining that income or loss which did not use or provide funds during the period (indirect method)	0 0.0	0 0.0	1 2.6	3 7.9	5 13.2	3 7.9	13 34.2	6 15.8	7 18.4	38 100 7.5
2. Begin the funds statement with total revenue that provided funds and deduct operating expenses that required the outlay of funds during the period (direct method)	1 2.6	1 2.6	5 13.2	7 18.4	2 5.3	13 34.2	4 10.5	3 7.9	2 5.3	38 100 6.2
3. Begin the funds statement with the figure "Funds Pro- vided by (Used in) Opera- tions" and include a note showing how it was derived using the indirect method	2 5.3	2 5.3	5 13.2	4 10.5	10 26.3	8 21.1	5 13.2	1 2.6	1 2.6	38 100 5.6

TABLE G-4 (continued)

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1.	1.	2.	3.	4.	5.	6.	7.	8.	9.	Total
4. Begin the funds statement with the figure "Funds Provided by (Used in) Operations" and include a note showing how it was derived using the direct method	3 7.9	3 7.9	6 15.8	6 15.8	7 18.4	7 18.4	6 15.8	0 0.0	0 0.0	38 100 5.1
5. Report revenues providing funds as sources of funds and operating expenses requiring the outlay of funds as uses of funds	5 13.2	8 21.1	5 13.2	7 18.4	2 5.3	4 10.5	4 10.5	1 2.6	2 5.3	38 100 4.1

TABLE G-5

CFA QUESTION D: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING THREE APPROACHES
FOR REPORTING TRANSACTIONS THAT HAVE NO IMPACT ON FUNDS

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Report these transactions in the body of the funds statement	0 0.0	3 8.1	5 13.5	4 10.8	8 21.6	1 2.7	4 10.8	6 16.2	6 16.2	37 100 5.8
2. Report these transactions in supplementary schedules disclosing detailed changes in related categories of assets, liabilities, and equities	0 0.0	1 2.7	2 5.4	3 8.1	6 16.2	4 10.8	8 21.6	12 32.4	1 2.7	37 100 7.3 151
3. Report these transactions in a note to the financial statements	2 5.4	4 10.8	8 21.6	2 5.4	7 18.9	6 16.2	6 16.2	0 0.0	2 5.4	37 100 5.4

TABLE G-6

CFA QUESTION E: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING
EXAMPLES OF DETAIL WITHIN THE FUNDS STATEMENT

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Distinguish between funds provided by continuing operations and funds provided by discontinued operations	0 0.0	1 2.7	0 0.0	0 0.0	3 8.1	3 8.1	10 27.0	14 37.8	6 16.2	37 100 8.1
2. Distinguish between funds flows associated with extraordinary items and ordinary funds flows	0 0.0	1 2.7	1 2.7	0 0.0	4 10.8	2 5.4	7 18.9	13 35.1	9 24.3	37 100 8.3
3. Report operating expenses requiring the outlay of funds as one figure	3 8.1	4 10.8	8 21.6	5 13.5	9 24.3	3 8.1	3 8.1	1 2.7	1 2.7	37 100 4.7
4. Report those expenses and revenues which were used in determining net income or loss, but did not use or provide funds as one figure	3 8.1	3 8.1	9 24.3	6 16.2	8 21.6	1 2.7	5 13.5	1 2.7	1 2.7	37 100 4.6
5. Report operating expenses requiring the outlay of funds by major functional category	0 0.0	2 5.6	4 11.1	1 2.8	4 11.1	6 16.7	11 30.6	7 19.4	1 2.8	36 100 7.1

TABLE G-6 (continued)

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1.	1.	2.	3.	4.	5.	6.	7.	8.	9.	
6. Report all purchases of long-term assets as one figure	6 16.2	7 18.9	9 24.3	5 13.5	7 18.9	2 5.4	1 2.7	0 0.0	0 0.0	37 100 3.6
7. Distinguish between investments in assets required for operating purposes and other investments in assets	1 2.7	1 2.7	1 2.7	2 5.4	4 10.8	6 16.2	11 29.7	11 29.7	0 0.0	37 100 7.3
8. Report gross outlays for acquisitions and gross proceeds from retirement of property, plant, and equipment	0 0.0	2 5.4	2 5.4	1 2.7	7 18.9	8 21.6	6 16.2	10 27.0	1 2.7	37 100 6.8
9. Report gross borrowing and gross repayment of long-term debt	0 0.0	2 5.4	3 8.1	1 2.7	5 13.5	2 5.4	11 29.7	8 21.6	5 13.5	37 100 7.5
10. Report borrowing and repayment of long-term debt for each main type of indebtedness	3 8.1	2 5.4	11 29.7	3 8.1	8 21.6	3 8.1	3 8.1	3 8.1	1 2.7	37 100 4.8
11. Report borrowing and repayment of long-term debt as one figure	4 10.8	7 18.9	13 35.1	3 8.1	4 10.8	1 2.7	2 5.4	2 5.4	1 2.7	37 100 3.6

TABLE G-7

CFA QUESTION F: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING THREE APPROACHES
FOR PRESENTING INFORMATION ABOUT FUNDS FLOWS FOR COMPARISON PURPOSES

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Present the funds statement for the preceding accounting period	1 2.7	0 0.0	1 2.7	3 8.1	7 18.9	4 10.8	10 27.0	5 13.5	6 16.2	37 100 7.3
2. Present a funds statement providing aggregate informa- tion for several preceding accounting periods	5 13.5	3 8.1	5 13.5	3 8.1	8 21.6	6 16.2	4 10.8	3 8.1	0 0.0	37 100 5.3 154
3. Present the funds statement for each of several preced- ing accounting periods	0 0.0	0 0.0	3 8.1	5 13.5	1 2.7	2 5.4	6 16.2	9 24.3	11 29.7	37 100 8.2

TABLE G-8

CFA QUESTION G: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING TWO DISCLOSURES ABOUT FUNDS FLOWS WITHIN A CONSOLIDATED ENTITY

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Information to distinguish between those business segments that generate funds and those business segments that use funds	1 2.6	0 0.0	1 2.6	0 0.0	5 13.2	3 7.9	10 26.3	9 23.7	9 23.7	38 100 7.9
2. Information about significant restrictions on the ability of an enterprise to transfer net inflows of funds to its consolidated subsidiaries and to owners	0 0.0	0 0.0	0 0.0	1 2.6	6 15.8	5 13.2	9 23.7	6 15.8	11 28.9	38 100 7.8

TABLE G-9

CFA QUESTION H: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING FOUR DISCLOSURES ABOUT THE FUNDS FLOWS OF A PARENT ENTERPRISE'S NONCONSOLIDATED SUBSIDIARIES AND AFFILIATED ENTERPRISES

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Condensed financial information about the funds from operations generated by these enterprises	0 0.0	0 0.0	4 10.5	6 15.8	7 18.4	3 7.9	9 23.7	5 13.2	4 10.5	38 100 6.7
2. Condensed financial information about funds flows associated with acquisitions of long-term assets by these enterprises	0 0.0	2 5.3	7 18.4	6 15.8	9 23.7	5 13.2	6 15.8	3 7.9	0 0.0	38 100 5.4
3. Condensed financial information about funds flows associated with debt and equity securities of these enterprises	0 0.0	1 2.6	3 7.9	5 13.2	16 42.1	7 18.4	5 13.2	1 2.6	0 0.0	38 100 5.6
4. Information about significant restrictions on flows of funds from these enterprises to the parent enterprise	0 0.0	1 2.6	1 2.6	2 5.3	5 13.2	5 13.2	7 18.4	10 26.3	7 18.4	38 100 7.7

TABLE G-10

CFA QUESTION 1: PLEASE EVALUATE THE USEFULNESS OF A SUPPLEMENTARY DISCLOSURE
 DETAILING INCREASES AND DECREASES IN EACH OF THE FOLLOWING
 ELEVEN CATEGORIES OF ASSETS, LIABILITIES, AND EQUITIES

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Current assets, excluding cash	0 0.0	3 7.9	3 7.9	5 13.2	7 18.4	3 7.9	9 23.7	5 13.2	3 7.9	38 100 6.3
2. Cash	0 0.0	4 10.5	2 5.3	3 7.9	6 15.8	4 10.5	6 15.8	8 21.1	5 13.2	38 100 7.0
3. Property, plant, and equipment	0 0.0	2 5.3	1 2.6	2 5.3	7 18.4	8 21.1	10 26.3	7 18.4	1 2.6	38 100 6.9
4. Other long-term investments	1 2.6	2 5.3	1 2.6	2 5.3	9 23.7	10 26.3	8 21.1	3 7.9	2 5.3	38 100 6.4
5. Intangible assets	0 0.0	4 10.5	6 15.8	5 13.2	7 18.4	6 15.8	7 18.4	2 5.3	1 2.6	38 100 5.6
6. Short-term debt instruments	1 2.6	2 5.3	3 7.9	1 2.6	7 18.4	4 10.5	9 23.7	5 13.2	6 15.8	38 100 7.1

TABLE G-10 (continued)

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1.	1.	2.	3.	4.	5.	6.	7.	8.	9.	
7. Long-term debt instruments	1 2.6	1 2.6	0 0.0	2 5.3	5 13.2	7 18.4	10 26.3	7 18.4	5 13.2	38 100 7.3
8. Equity securities	1 2.8	1 2.8	1 2.8	2 5.6	5 13.9	6 16.7	7 19.4	8 22.2	5 13.9	36 100 7.3
9. Spontaneous debt	1 2.7	5 13.5	1 2.7	6 16.2	11 29.7	8 21.6	1 2.7	2 5.4	2 5.4	37 100 5.5
10. Increases and decreases in each component of working capital	2 5.3	3 7.9	4 10.5	1 2.6	4 10.5	5 13.2	6 15.8	10 26.3	3 7.9	38 100 7.0
11. Net change in each component of working capital	1 2.6	2 5.3	2 5.3	0 0.0	6 15.8	13 34.2	6 15.8	6 15.8	2 5.3	38 100 6.6

TABLE G-11

CFA QUESTION J: PLEASE EVALUATE THE USEFULNESS OF EACH OF THE FOLLOWING
TWO DISCLOSURES ABOUT THE EFFECTS OF CHANGING PRICES ON
FUNDS AVAILABLE FOR EXPANSION AND DISTRIBUTION

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Information on the amount of funds needed for reinvestment to maintain the enterprise's operations at their current level	1 2.6	0 0.0	1 2.6	1 2.6	6 15.8	6 15.8	6 15.8	9 23.7	8 21.1	38 100 7.7
2. Information on the amount of funds that could be distributed while maintaining the enterprise's operations at their current level	2 5.3	2 5.3	1 2.6	2 5.3	3 7.9	6 15.8	7 18.4	6 15.8	9 23.7	38 100 7.4

TABLE G-12

CFA QUESTION K: PLEASE EVALUATE THE USEFULNESS OF THE FINANCIAL AND/OR NONFINANCIAL INFORMATION PROVIDED BY EACH OF THE FOLLOWING SIX SOURCES, AS THEY ARE CURRENTLY PREPARED, IN MAKING A TYPICAL COMMON STOCK INVESTMENT DECISION

Frequency Row Percent Median	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Total
1. Balance sheet	0 0.0	0 0.0	1 2.6	0 0.0	2 5.3	10 26.3	7 18.4	9 23.7	9 23.7	38 100 7.9
2. Income statement	0 0.0	0 0.0	0 0.0	0 0.0	1 2.6	6 15.8	3 7.9	14 36.8	14 36.8	38 100 8.6
3. Statement of changes in financial position	0 0.0	0 0.0	0 0.0	3 7.9	3 7.9	6 15.8	7 18.4	9 23.7	10 26.3	38 100 8.0
4. Notes to the financial statements	0 0.0	0 0.0	0 0.0	1 2.6	2 5.3	5 13.2	12 31.6	11 28.9	7 18.4	38 100 7.9
5. Information other than in 1 thru 4 above included in the annual report	0 0.0	1 2.7	2 5.4	6 16.2	7 18.9	5 13.5	6 16.2	6 16.2	4 10.8	37 100 6.5
6. All other sources of infor- mation outside the annual report	0 0.0	0 0.0	0 0.0	1 2.7	4 10.8	4 10.8	7 18.9	9 24.3	12 32.4	37 100 8.3

APPENDIX H

LEVEL OF SIGNIFICANCE OF COMPARISONS WITHIN
ALTERNATIVES BY SUBGROUPS OF CHIEF
COMMERCIAL LOAN OFFICERS

TABLE H-1
LEVEL OF SIGNIFICANCE OF COMPARISONS WITHIN
ALTERNATIVES BY SUBGROUPS OF CHIEF
COMMERCIAL LOAN OFFICERS
(KRUSKAL-WALLIS)

Alternative	Chi-Square	Probability (alpha)
B1	0.692	0.875
B2	10.173	0.017*
B3	11.398	0.010*
C1	11.483	0.009*
C2	13.774	0.003*
C3	2.580	0.461
C4	1.074	0.783
C5	1.605	0.658
D1	6.209	0.102
D2	4.086	0.252
D3	0.865	0.834
E1	6.368	0.095
E2	10.445	0.015*
E3	3.651	0.302
E4	1.889	0.596
E5	0.589	0.899
E6	2.702	0.440
E7	6.625	0.085
E8	14.012	0.003*

TABLE H-1 (continued)

Alternative	Chi-Square	Probability (alpha)
E9	11.861	0.008*
E10	1.939	0.585
E11	4.365	0.225
F1	7.346	0.062
F2	4.537	0.209
F3	14.467	0.002*
G1	4.009	0.260
G2	5.577	0.134
H1	6.001	0.112
H2	6.412	0.093
H3	6.094	0.107
H4	6.593	0.086
I1	3.996	0.262
I2	12.695	0.005*
I3	0.353	0.950
I4	3.431	0.330
I5	3.339	0.342
I6	6.021	0.111
I7	1.505	0.681
I8	2.390	0.495
I9	1.259	0.739
I10	2.762	0.430

TABLE H-1 (continued)

Alternative	Chi-Square	Probability (alpha)
I11	2.962	0.398
J1	4.300	0.231
J2	2.953	0.399

*Significant at .05 level.

APPENDIX I

LEVEL OF SIGNIFICANCE OF COMPARISONS OF ALTERNATIVES

BY CHIEF COMMERCIAL LOAN OFFICERS

Note: The sample statistics in this appendix are subject to nonresponse bias and should not be utilized for purposes of statistical inference.

TABLE I-1

LEVEL OF SIGNIFICANCE OF COMPARISONS OF ALTERNATIVES
BY CHARTERED FINANCIAL ANALYSTS
(FRIEDMAN)

Question: Issue	Chi-Square	Probability (alpha)	Multiple Comparisons (alpha = .05)
A: Concept of funds	14.068	0.003*	<u>2 4 3 1</u>
B: Major aggregation of funds flows	18.053	0.000*	<u>3 2 1</u>
C: Derivation of funds provided by operations	33.068	0.000*	<u>1 2 3 4 5</u>
D: Disclosure of nonfund financing and investing activities	8.797	0.012*	<u>2 1 3</u>
E: Level of detail of specific funds flows	139.152	0.000*	<u>2 1 9 7 5 8 10 4 3 11 6</u>
F: Comparative funds statements	15.176	0.001*	<u>3 1 2</u>
G: Funds flows within a consolidated entity	0.105	0.746	
H: Funds flows of nonconsolidated affiliates	20.660	0.000*	<u>4 1 3 2</u>
I: Schedules of changes in various categories of assets, liabilities, and equities	31.186	0.001*	<u>7 8 6 2 3 11 10 1 4 5 9</u>

TABLE I-1 (continued)

Question: Issue	Chi-Square	Probability (alpha)	Multiple Comparisons (alpha = .05)
J: Effect of changing prices on funds available for expansion and distribution	0.421	0.516	

*Significant at .05 level.

APPENDIX J

LEVEL OF SIGNIFICANCE OF COMPARISONS WITHIN ALTERNATIVES BY SUBGROUPS OF CHARTERED FINANCIAL ANALYSTS

Note: The sample statistics in this appendix are subject to nonresponse bias and should not be utilized for purposes of statistical inference.

TABLE J-1

LEVEL OF SIGNIFICANCE OF COMPARISONS WITHIN ALTERNATIVES
 BY SUBGROUPS OF CHARTERED FINANCIAL ANALYSTS
 (KRUSKAL-WALLIS)

Alternative	Chi-Square	Probability (alpha)	Multiple Comparisons (alpha = .05)
B1	4.624	0.201	
B2	6.065	0.109	
B3	3.582	0.310	
C1	6.773	0.079	
C2	4.220	0.239	
C3	2.375	0.498	
C4	2.335	0.506	
C5	11.198	0.011*	<u>1 3 4 2**</u>
D1	1.983	0.576	
D2	6.064	0.109	
D3	3.268	0.352	
E1	0.678	0.878	
E2	2.393	0.495	
E3	4.225	0.238	
E4	2.856	0.414	
E5	3.345	0.341	
E6	3.128	0.372	
E7	5.855	0.119	
E8	5.762	0.124	
E9	3.803	0.283	

TABLE J-1 (continued)

Alternative	Chi-Square	Probability (alpha)	Multiple Comparisons (alpha = .05)
E10	2.501	0.475	
E11	0.592	0.898	
F1	2.948	0.400	
F2	2.587	0.460	
F3	3.406	0.333	
G1	4.477	0.214	
G2	6.496	0.090	
H1	0.611	0.894	
H2	4.338	0.227	
H3	1.064	0.786	
H4	8.101	0.044*	<u>1 2 3 4</u>
I1	4.076	0.253	
I2	0.614	0.893	
I3	8.217	0.042*	<u>2 4 3 1</u>
I4	9.777	0.021*	<u>2 4 3 1</u>
I5	1.190	0.756	
I6	11.768	0.008*	<u>3 2 4 1</u>
I7	8.486	0.037*	<u>2 3 4 1</u>
I8	8.812	0.032*	<u>2 3 4 1</u>
I9	4.112	0.250	
I10	4.046	0.257	
I11	3.022	0.388	

TABLE J-1 (continued)

Alternative	Chi-Square	Probability (alpha)	Multiple Comparisons (alpha = .05)
J1	0.494	0.920	
J2	0.421	0.936	

*Significant at .05 level.

**1 = cash subgroup

2 = cash plus short-term securities subgroup

3 = net quick assets subgroup

4 = working capital subgroup

APPENDIX K

LEVEL OF SIGNIFICANCE OF COMPARISONS OF ALTERNATIVES BETWEEN CHIEF COMMERCIAL LOAN OFFICERS AND CHARTERED FINANCIAL ANALYSTS

Note: The sample statistics in this appendix are subject to nonresponse bias and should not be utilized for purposes of statistical inference.

TABLE K-1

LEVEL OF SIGNIFICANCE OF COMPARISONS OF ALTERNATIVES
 BETWEEN CHIEF COMMERCIAL LOAN OFFICERS AND
 CHARTERED FINANCIAL ANALYSTS
 (MANN-WHITNEY U)

Alternative	Z (negative)	Probability (2-tailed)
A1	1.2047	0.2283
A2	3.1894	0.0014*
A3	0.6419	0.5209
A4	0.1770	0.8595
B1	0.8069	0.4197
B2	0.4444	0.6568
B3	0.9617	0.3362
C1	0.5294	0.5965
C2	0.0043	0.9965
C3	0.5532	0.5801
C4	0.2215	0.8247
C5	2.1468	0.0318*
D1	1.1491	0.2505
D2	0.1633	0.8702
D3	1.7910	0.0733
E1	1.4942	0.1351
E2	1.4049	0.1601
E3	0.2216	0.8246
E4	0.4310	0.6665

TABLE K-1 (continued)

Alternative	Z (negative)	Probability (2-tailed)
E5	1.1449	0.2523
E6	0.6703	0.5026
E7	0.7491	0.4538
E8	0.7483	0.4543
E9	0.2337	0.8152
E10	4.9043	0.0000*
E11	0.2997	0.7644
F1	0.7739	0.4390
F2	0.2256	0.8215
F3	1.5546	0.1200
G1	1.9560	0.0505
G2	0.1274	0.8986
H1	0.9512	0.3415
H2	0.9209	0.3571
H3	1.2973	0.1945
H4	0.2612	0.7940
I1	1.1565	0.2475
I2	1.4499	0.1471
I3	0.9068	0.3645
I4	0.4019	0.6877
I5	0.7163	0.4738
I6	0.6406	0.5218

TABLE K-1 (continued)

Alternative	Z (negative)	Probability (2-tailed)
I7	1.0412	0.2978
I8	0.5656	0.5717
I9	1.2511	0.2109
I10	0.7722	0.4400
I11	0.3967	0.6916
J1	0.6372	0.5240
J2	1.5838	0.1132

* Significant at .05 level.

VITA

David Barthe Vicknair was born in New Orleans, Louisiana, on January 20, 1953. He resided there until December 1967.

In January 1968 he moved to Ocean Springs, Mississippi. He was graduated from Notre Dame High School in June 1971. The following September he entered Millsaps College and in May 1976 received a Bachelor of Business Administration degree in accounting. In the fall of 1976 he began study toward a Master of Science degree in accounting at the University of Southern Mississippi, Hattiesburg. This degree was awarded in August 1977. The following September he accepted a one-year faculty appointment at the University.

In September 1978 he entered the Doctor of Business Administration program in Accounting at The University of Tennessee, Knoxville. During his program he served as a Graduate Teaching Assistant.

In addition to his academic degrees, he is a member of the American Accounting Association, National Association of Accountants, Delta Sigma Pi honorary business fraternity, and Lambda Chi Alpha social fraternity. In May 1979 he completed the requirements of the Uniform Certified Public Accountant examination.

The author is married to the former Nancy Jean Watson of Kingsport, Tennessee. In January 1982 he accepted a faculty position at Louisiana State University, Baton Rouge.