



**THE SIGNIFICANCE OF INFORMATION CONTAINED IN THE
CASH FLOW STATEMENT OF LIBYAN INVESTMENT
COMPANIES**

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ABSTRACT

This study is concerned with investigating the significance of information contained in the cash flow statements of Libyan investment companies. A Variety of Libyan investment companies' have been investigated Specifically, there are three major objectives of this study: (1) to analyse to what extent the alternative methods of cash flow statement preparation assist in evaluating the operating activities of companies by investors.(2) To investigate the purpose of preparing cash flow statements in Libyan investment companies (3) To find out to what extent the cash flow information helps present and potential investors and creditors in their decision-making.

To accomplish the objectives of this study, both quantitative and qualitative approaches are employed. Firstly a questionnaire survey was undertaken with officials at the Libyan Investment Companies. Secondly, two groups of interviewees were approached. Eight interviews were conducted, 4 with investors and 4 with preparers.

The findings revealed that the Libyan investment companies prefer the direct method of reporting cash flows above the indirect method of reporting cash flows they preferred the direct method because the direct method was perceived to help them to make decisions about the allocation of scarce resources. The direct method was also perceived to help them in making predictions about the outcomes of past, present and future events. The results show that the cash flow statement has advantages such as providing information about liquidity and providing information about cash receipts and cash payments. It provides information which enables the users to estimate future cash flows if prepared under the direct method. The results also reveal that the cash flow statement helps decision makers to take decisions concerning the financial requirement.

CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1 Introduction

This chapter provides an overview and describes the structure of this thesis. Nine sections are contained in this chapter. Section 1.1 introduces the chapter. Section 1.2 provides background to the research and the context. Section 1.3 presents the research objectives and questions which establishes the purpose of the study. Section 1.4 justifies the research study. Section 1.5 discusses the research methodology. Section 1.6 outlines the contribution of the research findings while Section 1.7 outlines the structure of the thesis.

1.2 Background to the Research

The financial statements include the cash flow statement to provide information about a company's cash inflow and outflow for a period of time if the direct method is used. The growing importance in reporting cash flow data internationally can be seen from the IASC issuing IAS7 (revised 1992), which took effect from 1 January 1994 and superseded IAS7 "Statement of Changes in Financial Position" issued in July 1977. The objective of IAS7 (revised 1992) is to provide information about the historical change in cash and cash equivalents by means of a cash flow statement. The cash flow statement is classified under three standard headings cash flow from operations, investment, and financing activities. The direct method shows each major class of gross cash receipts and gross cash payments within operations. The indirect

method adjusts accrual based net profit or loss for the effects of non-cash transactions within cash flow from operations.

The meanings of cash and cash equivalents presented on statements of cash flow are defined in IAS7 as below:

“Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value” (IASC 2000: 111).

Cash flows on the cash flow statement must be identified with three main activities of enterprises as required by FAS No. 95 (and IAS 7).

These are cash flow from operating, investing and financing activities.

(Nurnberg 1993), that is, enterprises derive the cash used for investing activities and settlement of outstanding financial obligations in an accounting period from internal and external sources. Internal cash resources originate from the net cash generated from current operations.

External cash resources come from financing activities such as borrowing and receiving cash from the sale of equity shares (Wallace et al, 1997).

Operating activities are the main activities involved in the revenue producing activities of the company and other activities that are not investing and financing activities. Investing activities involve the acquisition and disposal of long-term assets and other investments except short-term investments. Financing activities are activities that result in changes in the size and composition of the equity capital and borrowings of the enterprise (IASC 2000).

1.3 Research Objectives and Questions

This research aims to evaluate the extent to which Libyan investment companies rely on the information provided by Cash Flow Statements, and focuses on sector differences.

To achieve the aim of the research this study sets the following objectives:

- To analyse to what extent the alternative methods of Cash Flow Statement preparation assist in evaluating the operating activities of companies by investors.
- To find out what differences exist between the ways different sectors treat the information provided by Cash Flow Statements.
- To assess the impact of the Cash Flow Statement on investment decisions of Libyan investment firms.
- To investigate to what extent the cash flow information helps present and potential investors and creditors in their decision-making.

Research Questions

This study aims to answer the following questions below.

1. What methods of Cash Flow Statement preparation do Libyan companies use?
2. Should Cash Flow Statements be reported for external and/or internal purposes?
3. What impact does cash flow information have on investment decisions of Libyan investment firms?

1.4 Justification for the Research

Cash Flow Statements are important sources within financial statements, as suggested by the Financial Accounting Standards Board (FASB 1978). Moreover, cash flows are involved in various economic decision contexts such as liquidity and solvency evaluation and performance evaluation,

Many studies have investigated the ability of Cash Flow Statement data to predict future cash flows. In addition, most research has been undertaken in the USA and UK. There has been no published research undertaken in Libya. (Aloud 2005).

Libyan investment companies have doubts regarding the usefulness of cash flow statements, as there is little evidence on the usefulness of the Cash Flow Statement, in the case of Libya (Aloud 2005). This makes users of financial statements unwilling to use cash flow information in their decisions. Libya is a developing country with a unique political system based on the “Third Universal Theory” of the Green Book which was produced by Muammar Al Gadhafi in the 1970.(president of Libya) This current research focuses exclusively on the information provided by Cash Flow Statements in Libyan investment companies, and fills a gap in the literature. The investment in Libya is important to the economy, as it represents a significant revenue base for the future of the country (Otman and Karlberg, 2005).

1.5 Methodology

Research approaches were categorised into two types namely: qualitative and quantitative. In fact, much of the debate on the choice of research methods has tended to concentrate on and revolve around the choice between qualitative and quantitative methods. In this research the two approaches were chosen to achieve the main aim of the research.

The questionnaire was designed according to the model that contains the three main factors: methods of Cash Flow Statement preparation, purpose of preparing Cash Flow Statements and the effect of cash flow information on investment decisions. The questionnaire appears in English translation in Appendix (4). The first section serves to identify the details of the respondents and provides demographic data, such as their gender, their classification such as general manager, director of department, internal auditor, Accountant, their experience, the qualifications of the respondents, and other information related to the type of company.

The objective of the second section is to measure and evaluate the extent to which Libyan investment companies rely on the information provided by Cash Flow Statements. This section contains three parts to measure the objectivity. The first part attempts to measure methods of Cash Flow Statement assessment used by Libyan investment companies.

The second part attempts to measure the purpose of preparing Cash Flow Statements. The third part attempts to measure the impact of cash flow information on investment decisions

Interval scales are used when the respondent is asked for responses in the form of a rank ordering as the evidence is put into categories. The numbers assigned indicate the ordering of the categories (Remenyi et al 2002). In this questionnaire, they were asked to circle one of the five boxes on a five-point scale that ranged in agreement from (1) strong disagreement to (5) strong agreement. Therefore, an interval scale is found to be suitable for this study. A Likert-type scale is employed in this study. This type of scale suggested that every statement in the scale has the same attitudinal value, weight or importance in order to reflect an attitude towards the issues examined by the scale (Sekaran 2003).

The questionnaire was piloted with the supervisory team and a number of colleagues from the academic community.

Comments and suggestions were incorporated in the second version of the questionnaire. Finally, the questionnaire was translated into Arabic and, along with an English version, was given to a translation expert for comments.

The interviews (semi-structured and unstructured interview formats) were used as questions were designed to obtain open answers. Interviews were conducted in order to approach some issues that could not be captured properly or analysed through a quantitative approach. In general, this can be approached more easily by one-to-one discussion. Preparers and investors are represented in the sample of interviewees and are expected to provide information in private meetings. They are expected to explain issues related to the significance of information contained in the Cash Flow Statements of Libyan companies based on

the three factors (methods of Cash Flow Statement preparation, purposes of preparing Cash Flow Statements and the effect of cash flow information on investment decisions)

The interview research builds upon the general objectives of the research. Thus, testing the views of investors in a Libyan Investment Company and the views of preparers regarding the issue of methods of Cash Flow Statement preparation was the first general objective. Examining the views of investors and preparers, related to the purpose of preparing cash flow statements, was the second general objective of the research. The last general objective related to the effect of cash flow information on investment decisions.

A letter explaining the objectives of the study and ensuring the anonymity of responses was sent in advance to the respondents. The themes of the questions were given in advance as a reminder to the interviewee about the meeting and also to allow the interviewee time and scope to prepare for the meeting. Telephone calls one day before the meeting were also made to confirm the interviews.

At this stage, two groups of interviewees were approached. Eight interviews were conducted, 4 with investors and 4 with preparers, as these two groups have a direct influence on the issues related to the significance of information contained in the cash flow statements.

The collected data from interviewees is analysed by using key information. These procedures were continued in seeking the themes and patterns in the data. Concepts underlined in the analysis were analysed according to the research framework. Also new themes or

concepts that were highlighted in the interviews were handled in a flexible way and considered in relation to the research's framework.

This involved grouping together answers from the different interview transcripts by topic per the interview guide and allowing the guide to act as a descriptive framework for analysis. Once answers had been grouped by topic, they were analysed using key information.

For the analysis and interpretation of the data, however, this step mainly depends on the orientation of the researcher and the objectives of the study that focused on methods of Cash Flow Statement preparation, purpose of preparing Cash Flow Statements and effects of cash flow information.

Finally, to highlight the contents of the interviews, the grouped and summarised answers were compared and contrasted, showing the degree of agreement/disagreement between the interviewees. Their quotations have been used in order to bring out their thoughts and ideas about the discussed topics.

1.6 Structure of the Thesis

This research study contains seven chapters.

Chapter one: presents the research background and purpose of the research, explains the objectives and questions of the research and provides a summary of the research methodology. It also stresses the significance of the study in terms of the contribution to knowledge. Finally, the structure of the thesis.

Chapter two: highlights the Libyan social, political, economic and legal systems, the state of accounting education. This chapter also provides a brief history of the Cash Flow Statement and benefits of cash flow information; the chapter discusses the objective and scope of IAS7 Cash Flow Statements.

Chapter three: critically reviews the literature related to the Cash Flow Statement. However, the methods of Cash Flow Statement preparation are examined. The chapter presents the purpose of preparing Cash Flow Statements and the effect of cash flow information on investment decisions. Finally, a number of previous studies conducted in this area are reviewed.

Chapter four: Discusses the methodology and methods used to carry out this research. The research objectives, study sample and population and hypotheses were presented. As the study employed two methods of data collection quantitative and qualitative methods (survey and interviews), these two methods were discussed in details. Other methodological issues will also be discussed in this chapter.

Chapter five: analyses the findings of the survey. The primary data collected through the questionnaire will be presented in this chapter. The chapter analyses and summarises the questionnaire data that was collected from officials in the Libyan Investment Companies. However, the major aim of the chapter is to examine the study hypotheses, using the relevant statistical tests namely, Analysis of Variance (ANOVA) and to discuss the study hypotheses.

Chapter six: The data collected from the eight interviews with Preparers and investors in Libyan Investment Companies are analysed and interpreted in chapter 6. This chapter aims to provide in-depth evidence about the main issues that this study attempts to address.

Chapter seven: addresses three issues; namely, the summary of the study chapters, focusing on the findings of the study, recommendations of the study, some guidelines and directions for future research and limitations of the study.

CHAPTER TWO

THE LIBYAN BACKGROUND

2.1 Introduction

In order to gain a better understanding of the Libya context, this chapter outlines the economic, political and social systems in Libya. A brief historical background of the country is followed by an exploration of the environment and its accounting practices. An account of Libyan accounting education is also provided. Finally, the Libyan investment structure is reviewed.

2.2 Historical Background

Libya is an Arab state which has a strategic geopolitical location in North Africa, as it links Eastern with Western Africa and Southern Europe with the rest of Africa. The total area of Libya is nearly 680,000 square kilometres, although more than 90 per cent of the land is desert. Libya has a population of almost five and a three quarters million, with about 51 per cent males and 49 per cent females (UN, 1991: 34 and Central Bank of Libya report 2005). The Islamic religion and Arabic language are two elements that characterise Libyan culture. The country has been subject to many foreign occupations, including the Ottoman Empire's long occupation (1551-1911) and European tutelage (1911-1951). Early Libyan history was influenced by foreign conquerors, including the Phoenicians, Greeks and Italian. However when Libya became an independent State in 1951 the UN agreed to sponsor a technical aid programme that emphasised the development of the country's agriculture and education systems. Foreign powers, notably Britain and

the United States, provided development aid. The aid programmes were a result of allowing the UK and the US to maintain and use military bases in Libya over a period of 20 years starting in 1953 (Wright, 1981; Otman and Karlberg 2007). Steady economic improvement occurred, but the pace of this development was slow, and Libya remained an underdeveloped country which was heavily dependent on foreign aid. This situation changed after 1959 when research prospectors from Esso (later renamed Exxon) confirmed the location of major petroleum deposits in Libya (Wright, 1981; Vandewalle, 1998). Further discoveries followed and commercial development was quickly initiated by concession holders. The discovery and exploitation of oil turned the country into a wealthy nation with the potential for extensive development. On September 1, 1969, the political system of the country changed as military and civilian officers seized power. The initial proclamation of the Revolutionary Command Council (RCC), declared the country to be a free and sovereign State, called the Libyan Arab Republic. Among the RCC members was Muammar Al Gadhafi, who served both as Prime Minister and Defence Minister. Gadhafi, who is referred to as "the leader," produced in the 1970s a book in three parts known as The Green Book, which utilised the Third Universal Theory to set forth his political, economic and social programmes. Moreover, from this date a new system was introduced to Libyan policies.

In line with its intended populist and socialist character, in 1977 the official name of the country was changed to "The Socialist People's Libyan Arab Jamahiriya (Wright, 1981: 191), although throughout this research, the country is referred to as "Libya". Since Libya became as socialist state, to be governed by the people, authority has

been transferred to the General People's Congress (GPC).

In 1993 the UN imposed sanctions on Libya to encourage the Libyan government to hand over two suspects of the Lockerbie airline bombings in 1980 in Scotland. During 1999 the UN sanctions which included a ban on military sales air communications and certain oil equipment were suspended. The bans, which had severely impacted on the Libyan people, became the main driver for Libya's modernisation of the oil and gas industry. As a result of bans the Government (GPC) introduced a series of liberalisation measures. The general purpose of these measures was to cut back on public expenditure and to gradually bring to an end the funding that contributed to such expenditure. The Government also promoted private investor initiatives in different sectors (Vandewalle, 1998). The first set of reform measures, approved in 1987 and 1988, allowed the construction of self management or collective ownership businesses. Other developments included the issue of regulations governing the privatisation of selected public enterprises and the lifting of restrictions on private wholesale trade.

In September 1992, a privatization law was passed to regulate the private sector businesses in the national economy and to open up a number of public-sector enterprises for privatisation. The law's key goal was to regulate. And improve private sector investments. The law identified the economic sectors in which the private sector and individuals could invest. These sectors include production, distribution and service activities in industry, agriculture, transport, commerce, finance, tourism and the private practice of professionals. The law authorized the establishment of privately funded businesses, a long with family and individual

activities. On the basis of a proposal presented to the General People's Committee, the law permitted the sale of publicly held enterprises to private ownership. In 1997, the State issued Act Number 5, which concerned Foreign Capital Investment Encouragement. The Act encouraged foreign investments in areas that would result in a transfer of modern technology, a multiplicity of income resources, which would contribute to the development of products, so as to help Libya enter into international markets. Little progress, however, has been made in this area. The sanctions were lifted after the Libyan Government reached a settlement with the families of the Lockerbie victims in 2003. On 19th December 2003 Libya, Britain and the United States announced a deal whereby Libya would abandon its weapons of mass destruction (WMD) in return for improved relations. Thereafter, the United States also rescinded its ban on travel to Libya and authorized U.S. oil companies with pre-sanction holdings in Libya, to negotiate for their return to the country once economic sanctions were lifted fully (Otman 2005).

Libya's cooperation led to relations warming with the US and in April 2004, when the US economic sanctions against Libya were ended, a written statement from the White House Press Secretary stated, "U.S. companies will be able to buy or invest in Libyan oil and products. U.S. commercial banks and other financial service providers will be able to participate in and support these transactions (Otman 2005).

Since then, the Libyan Government, with its new relationship with European countries and USA, has attempted to play a higher profile role on the world and a number of international companies have invested in Libya. In an attempt to give a greater role to the private sector in economic activity, the past four years have

witnessed a continuation of the privatisation policy of some manufacturing and service companies (Central Bank of Libya, 2006)

2.3 Libyan context

The history of financial accounting in Libya is short. The first recognised body to govern accountancy in Libya can be traced back only to independence from the Italian occupation in 1952. The body was called the State Accounting Bureau (SAB). The SAB was established by Law No. 31 in (1955) under the responsibility of the Ministry of Treasury. The Law was amended to guarantee the independence of the SAB and became responsible directly to the Ministries' Council of Libya under the Audit Bureau of 1966 law.

As a consequence of the Al-Fath September Revolution (AR), the structures of the government have changed to consist of an executive branch and a legislative branch represented by the Revolutionary Command Council (RCC). According to article No. 1 of the SAB Law 79 of 1975, the SAB is "*an independent agency affiliated to the RCC and its purpose is to apply effective control over the public funds*". As the RCC transferred its authority to the GPC in 1977, the SAB has become responsible directly to this new legislative body.

In 1988, a new body called the Institution for People's Control and Follow-Up was created as a result of the merger between the SAB and the Central Institution for General Administration (CIGA) by Law No. 7, and thereafter renamed as the Institution of People's Control and Follow-Up (IPCFU) in 1996. The main objectives of the IPCFU, initially, were to provide the auditing services and

administrative control of all the state agencies, departments, organisations aided by or in receipt of loans from the government, and any other corporation to which the state was holding more than 25 per cent of the capital. The purposes of the audit services were to ensure that these state agencies and their organisations were operating according to the financial regulations and guidelines set up by their relevant secretariats (ministries) and were meeting the social and economic objectives. The IPCFU's responsibilities have been extended to include the auditing services of foreign companies and joint ventures operating in Libya, with the purpose of ensuring that these companies operated in accordance with Libyan laws and regulations.

2.4 The accounting profession

Many developing countries were subjected to long periods of colonisation by developed countries. Therefore, colonisers were responsible for administering the country's affairs and implementing their laws and systems. Libya was not an exception. Western international accounting firms, mainly from Great Britain and the USA, were responsible for the commencement and development of the accounting system and profession in Libya. This continued to be the case even after the country's independence, as the lack of locally qualified and expert accountants reinforced the dominance of western companies. Bait-El-Mall et al (1973:2) stated that

“Accounting principles and auditing standards in Libya follow those of Britain- a derivative of British rule after the Second World War. Large firms and government

advisers were British, and, until the First of September Revolution in 1969, the director of the State Accounting Office, J. H. Newbegging, was a British Chartered Accountant”.

The discovery of oil in the 1960s led to the development of the economy and provided the country with enough money to establish and develop economic activities. Therefore, the demands for accountants' services have increased. In addition, more reliable information has become of interest to stockholders such as investors, creditors, and managers as well as state agencies. The limited number of locally qualified accountants accordingly led the government to place no restriction on Libyans to work as professional accountants provided they held an accounting qualification (Buzied, 1998). Furthermore, foreign accounting firms started to open branches in Libya. According to Bait-El-Mall et al (1973) a few years prior to 1973, all public accounting firms were branches of foreign firms. Further, those foreign accounting firms were controlled largely by foreign head offices. As a result of the Nationalisation Act, post 1969, and the lack of regularity in accounting and auditing standards and practices, there was an urgent need to set up a professional body, to take the responsibility for developing a general framework of accounting.

To meet the is demand, Law No. 116 was issued in 1973. This is the first ever recognised law to govern accountancy and related areas. The law covers:

- i. the establishment of the Libyan Accountants and Auditors Association (LAAA),
- ii. registration of accountants;
- iii. Operation of the profession;
- iv. fees and pensions and contribution fund;
- v. obligations of accountants and auditors and
- vi. penalties and general and transitional provisions.

The LAAA was established in June 1975 with the following objectives:

- To organise and improve the conditions of the accounting profession and to raise the standards of accounting and auditors professionally, academically and politically;
- To recognise and participate in conferences and seminars related to accounting internally and externally and to keep in touch with new events;
- To establish a retirement pension fund for its members;
- To increase co operation between its members and to protect their rights and
- To take action against members who violate the traditions and ethics of the profession.

2.5 The Libyan Commercial Code

The Libyan Commercial Code (LCC) was issued in 1953 and has been amended a number of times. It covers rules on corporation books and records keeping and financial reporting. The LCC version 1972, Article No.58, requires that each

enterprise must have at least the following books:

- (i) a journal,
- (ii) an inventory book and
- (iii) balance sheet book.

However, before being used, the books must be notarised by the Court of First Instance. According to the statement made by the government in 1972, Article No. 570 corporations (joint stock companies) are required to keep the following records:

- i. a register of members;
- ii. a register of bondholders;
- iii. a minute book of members' meetings;
- iv. a minute book of director's meeting;
- v. a minute book of statutory auditor's meetings;
- vi. a minute book of executive committee's meetings and
- vii. a minute book of bondholders' meetings.

Further, the provisions of LCC states that every corporation's board of directors is responsible for preparing a balance sheet and a profit and losses account once a year.

Article 573 of LCC details the items of assets and liabilities that must be reported in any corporation's balance sheet. The financial statements are to be reported to the general assembly of shareholders for approval (Libyan Government, 1972 Article 572). A copy of an approved balance sheet and profit and loss account must be submitted to the Commercial Registrar (CR) within thirty days of its approval. This

is to be accompanied by the director's report and auditing board report (Libyan Government, 1972, Article 583).

2.6 Tax Law

The first tax law used in the country was the Italian tax law in 1923. After independence, the new government asked for technical help from the UN to reform its economy, and continuation of the 1923 Italian tax law was one of the UN's recommendations (Bait-El-Mall, 1981). In 1968, the government had used the Italian tax law, which was used before independence, with modification to suit the Libyan environments. This law became the first unified tax law to be implemented in Libya (El-Sharif, 1981). Before the last version of the present tax law in early 2005, there was a second attempt to establish a tax law to suit Libya in 1973. According to Bit-Al-Mall (1981: 51), the new tax law No. 64 1973 shows no significant differences from the previous one.

2.7 Libya's Economic Environment and its Accounting Practices

Hagigi and Williams (1993) point out that those countries which have different financial reporting practices, are determined by factors such as its accounting principles, tax regulations, economic conditions, legal setting, sociological considerations and environmental characteristics. Therefore, numerous environmental factors can influence the development of accounting practice presented in the international accounting literature. It has been argued that there are different patterns of accounting application and practice in different parts of the world. Moreover, Briston (1990: 215) argues that "*each country is different and has different needs. The purpose of accounting is to serve society. As a consequence, accounting is likely to be influenced by the different political, economic, social and religious environments in which it operates*". Also, Hofstede (1993) states that there are numerous theories that only partly apply outside the borders of their countries of origin. In this respect, Mueller (1968) suggests four elements of differentiation:

1-State of economic development: national economies often vary in terms of the extent of their development and nature, ranging from the developed to the developing economies.

2-State of business complexity: national economies can vary in terms of their technological and industrial know-how, which can create differences in both business needs and business output.

3-Shade of political persuasion: national economies can vary in terms of their political systems, ranging from the centrally-controlled economy to the market-

oriented economy.

4-Reliance on some particular system of law: national economies often vary in terms of their legal systems. They may rely on either a common-law or code law system; or they may have protective legislation, such as unfair trade and antitrust laws.

2.8 The Influence of Culture

Research indicates that another cause of variation between national accounting systems is cultural differences. Cultural differences between nations are identified as an important influencing factor on reporting and disclosure behaviour with regard to financial statements. One of the prominent researchers on cultural differences is Hofstede's (1980, 2001) cultural framework is built on the premise that people from around the world are guided by different attitudes, beliefs, customs, morals and ethical standards. Societies are based upon different traditions, rituals, and religions; and promote different views regarding family, work, social, and personal responsibilities. Hofstede's framework was originally comprised of four dimensions. The first dimension – individualism/collectivism – is widely acknowledged as a defining element of culture. In individualistic societies people are expected to look out after themselves, whereas in collectivist societies there is a greater emphasis on group welfare and loyalty. Individualists value independence and self-expression, and tend to believe that personal goals and interests are more important than group interests. In contrast, collectivists tend to view themselves as members of an extended family or organization, place group interests ahead of individual needs, and value reciprocation of favours and respect for tradition. The second dimension –

uncertainty avoidance – represents the extent to which people feel uncomfortable or threatened by ambiguous and uncertain situations, and thus create belief systems and institutions in order to promote conformity. Societies with higher levels of uncertainty avoidance place greater value on security (e.g., financial, social), feel a greater need for consensus and written rules, and are intolerant of deviations from the norm. In contrast, individuals with low uncertainty avoidance rely less on written rules and are more risk tolerant. A third dimension – masculinity/femininity – refers to the extent to which a society embraces predominately male or female values. A masculine society places greater value on success, money, and personal accomplishments, whereas a feminine society places greater emphasis on caring for others and quality of life. In a masculine society individuals are more aggressive, ambitious, and competitive; whereas individuals in feminine societies are more modest, humble, and nurturing. A fourth dimension – power distance – reflects the degree to which a society accepts that power in organizations is distributed unequally.

Individuals in societies characterized by higher levels of power distance tend to follow formal codes of conduct and are reluctant to disagree with superiors. Individuals in societies that are lower in power distance, on the other hand, do not feel as constrained by perceived or actual differences in status, power, or position.

According to Tsang (2004) different national cultures have different ways of structuring the organisations and motivating employees, which can impact on individual elements of the organisation's performance. Hamid *et al.* (1993:132) stated that culture “*may be taken to refer to all those social, political and other*

factors which influence individuals' behaviour...as such, religion is admissible as a cultural factor". In respect of Libya, Aghila (2000) points out that family, religion and language have a significant effect on the attitudes and behaviour of people both in Libya and in Arab society in general.

In Libya, the family operates as a small society, with its members being assigned to a hierarchical order, according to age and generation. Authority and leadership are the preserve of the father, grandfather, or eldest son (El Fathaly, 1977, cited in Ahmad, 2004). The approach is supported by the Islamic faith and Arab custom, which acknowledge a status hierarchy (Bjerke and Al-Meer, 1993), in which authority is practised frequently by leaders at the community level and at the family level by the father.

Furthermore, as in other Arab countries Libya is characterised by the extended family, clan, tribe and village, which play an important role in the community's life and in people's relationships with one another (Aгнаia, 1997). In addition, personal relations and family contacts can play a greater part in gaining business and career promotion than practical experience or academic qualifications. Loyalty to the family, clan, and tribe along with the emphasis placed on regionalism and sectarianism, occasionally outweigh loyalty to a profession and sometimes the law (Aгнаia, 1997).

Lewis (2001) argues that if culture influences accounting practices, then so does religion, if only because religion influences cultural values. The Islamic tradition places ethical/social activity ahead of individual profit maximization. Speculative investments, such as margin trading, are not allowed because Islam bans

transactions the involve uncertainties. Partnerships are a common form of business organization. That is, Islam recognizes and encourages commerce. Although it requires business activities to be conducted in compliance with principles enshrined in the Sharia*. What is lawful (Halal) and unlawful (Haram) for various aspects of business activity is prescribed. The Sharia's prescriptions include all areas of trading activity. It advises the nature of allowable traded goods and services, as well as the mores of business conduct (Hamid *et al.* 1993).

*According to Hamid et al. (1993) the Quran (the revealed words of God) and *Sunnah* (Contains God's inspired acts; sayings of the Prophet Mohamed) are the material sources of Islamic Law. Together, they are referred to as the Sharia.

Archambault and Archambault (2003) maintain that these factors limit stock market development. Trust underlies relationships, thereby reducing the need for accounting as a means of financial reporting and disclosure. Therefore, businesses in Islamic nations may disclose less information. However, Goodrich (1986) found no association between accounting principles and socioeconomic factors. One of these socioeconomic factors investigated was the Catholic culture.

As most of the Libyan population are Muslim, Islam plays a very important role in the community's life and in people's relationships with each other. Furthermore the revolutionary system is committed to Islam and has on a number of occasions clearly reaffirmed Islamic values. For example, in November 1973, the new law appeared which emphasised the Islamic Sharia in all facets of the Libyan legal system.

Following the revolution in September 1969 and consistent with the Muslim faith, all alcoholic beverages were forbidden. Bars and nightclubs were closed, and “provocative” entertainment was banned. The use of the Muslim calendar was made mandatory. This was evident, even through legislation such as the Libyan Tax Laws encouraged companies operating in Libya to be involved in some charitable donations. For instance, the companies are granted a tax privilege for making donations to an officially recognized charity and for contributing to their employees’ pensions. According to the relationship between labour and their agency in Islam, Allah's Messenger (peace be upon Him) said that *“give the hireling his wages before his sweat dries”**

*Al-Tirmidhi Hadith, Hadith 888, Narrated by Abdullah Ibn Umar.

Furthermore, Islamic societies may exert pressure on organizations to be involved in charitable activities. In this context Al-khater and Naser (2003) suggest that religious groups might be seen as an active pressure group in the Islamic world. These groups may have a predisposition to invest in businesses that pay Zakat* and other charitable donations.

Therefore, it is important for institutions to demonstrate to the public that they contribute to the well-being of society, just as other business enterprises do. Thus, this might support the argument that in a society concerned with social issues, user groups (i.e. stakeholders) may exert more power, possess greater legitimacy, and have their claims viewed with greater urgency. As societal values can influence managerial values, decision makers (i.e. managers) in societies that are characterised as having a strong interest, or concern with social issues, may be more cognizant of stakeholder claims and consequently attach greater importance to them.

2.9 The Influence of Political and Economical Environment System

Political and economic systems can influence organisations and people's behaviour in numerous ways. It has been argued that political or governmental stability affects accounting in a number of ways. In societies where accounting rules are set by the government and where major changes in the people governing the country are frequent, accounting procedures may undergo similar changes (Alhashim and Arpan, 1992, cited in Saleh, 2001). They also assert that it is natural to see that governmental instability tends to result in economic instability.

* Zakat, meaning alms, is one of the five pillars of Islam

Economic instability, such as inflation and changes in exchange rates, places certain demands on accounting. Under such circumstances, accounting conservatism increases as a result of the general uncertainty about future economic and political trends. Belkaoui (1985) hypothesised that as political and civil violations and repression increase, the extent of disclosure and reporting by businesses diminishes. The degree of political and civil freedom in a country is generally assumed to depend on the degree of political rights and civil liberties evident in the political and civil structure (Gastil, 1990). According to Lin (1993 cited in Mashat, 2005) violations of political rights and civil liberties associated with various forms of political structure, tend to restrict political and civil freedom and may then act as an obstacle to full and fair disclosure.

Goodrich (1986) found a significant correlation between political systems and accounting practices. *"Political factors, like political system types and international organizational membership, are significantly linked to the accounting groups."* Goodrich (1986: 23). Deese (1998) argues that economic freedom may be related to economic development and, therefore, corporate disclosure (Salter, 1998). Williams (1999) also revealed a positive association between the level of political and civil repression and the extent of social and environmental information disseminated in the annual reports of Asia-Pacific companies.

The Libyan economic and political system is based on what is termed "the Third Universal Theory", which is based on the 'Green Book' authored by Muammar Al Qathafi. He argued that all previous theories undertake the economic problem from either the perspective of ownership of any of the elements of production, or from that of the wages for production. Their attempts to resolve the problem of production failed due it being based on 'a wage system'. This system divests workers of any right to the products being produced, whether a society or a private establishment. In his Green Book, Al Qathafi also emphasised that the freedom of an individual could be marginalised or even result in potential slavery and exploitation where their needs are totally controlled by others, which could create conflict. According to the Third Universal Theory the objectives of the new socialist society is to create a happy society through freedom. This can only become reality after satisfying man's material and spiritual needs, and that, in turn, happens through the liberation from the control of others. Satisfaction of these needs has to be achieved without exploiting or enslaving others as this contradicts the aspirations of the new socialist society.

Thus, a citizen in the new socialist society can secure their material needs through being self-employed, or by being a partner in a collectively-owned establishment. Alternatively they can render a public service to society which repays the service by providing for their material needs. Therefore, it is proved, economic activity is driven by the satisfaction of material needs. Once these needs have been met then the activity should cease, as the wealth of the world is considered limited.

Any excess gained by one person will be to the detriment of another person's share; further the concept of amassing a surplus for the sole purpose of creating profit is contrary to the new socialist ideals. Allowing private economic activity to amass wealth beyond an individual's needs and employing others to secure savings is considered the very essence of exploitation. Additionally, the new system emphasises the importance of workers' full rights by promoting the concept "Partners not Wage-earners".

However, in Al Qathafi' Green Book, he also emphasized that wage-earners who improved their wages may still be a type of slave, adding that the natural order of is "those who produce, consume". An explanation was also given that from ancient times until now the economic factors of production are composed of: raw materials, which are the instrument of production and employees. He further argued that the natural rule of equality is that each of the factors has a share in the production process and should any of them be withdrawn, there production will cease. He further claimed that as each factor is fundamental, they are all equal within the production process. For this reason they all should have equal rights to what is produced.

Within Libyan organisations, the structure is managed by what is termed 'the People's Committee'. Members of this committee, including the head of the company, are chosen from within the company, with each individual employee having the right to be a member. Thus, employees have opportunity to contribute at

the top of the hierarchical structure. Social relationships amongst colleagues can be a strong factor in this process, rather than educational qualifications or period of experience. Thus, all Libyan organisations should address issues that are related to employees' rights and their protection. In particular, economic activities have to be decided upon within the boundaries of society's values. That is, the employees must be dealt with as partners, rather than as wage-earners. On the other hand, public organisations, which are considered to be owned by society, seek to provide the basic services and goods to the citizen, rather focusing on the maximizing of profit.

2.10 Libyan Accounting Education

Education has been recognised as a key element in political and socioeconomic development. Many African nations have, since independence, based their education systems on their colonial background and the wider political, economic, social and cultural setting (Ghartey, 1993). Accounting education is a part of the wider education system of the country it serves. Libya's education had two periods of development. The first period was before independence, when no formal accounting education or training existed for the local population (Kilani, 1988; Buzied, 1998). For example, Stanford Research Institute (1969, cited in Ahmed, 2004) concluded that during the period of colonisation, more than 90 percent of Libyans were illiterate. Very few Libyans had been given the opportunity to study at university or to qualify for a recognised profession at the time of independence.

In the second, post independence period, the accounting system was divided into two levels: pre-university and university levels. It is of note that accounting education was first offered at university level in 1957, by the Accounting Department in the Faculty of Economics and Commerce at the University of Libya (now called Garyounis University)* . The accounting department has been an influential force in accounting education in Libya since its foundation. In the period 1957-1981 it was the only faculty to offer accounting education at university level. The growing demand for accountants and accounting services in the early 1980s increased the need for accounting education at the higher education level. As a result, other universities also began to offer accounting programmes between the 1980s and early 1990s.

The accounting education curriculum from 1957 to 1976 was strongly influenced by the British education system, as Libya was administered by Britain from 1943 to 1952. Indeed, many accounting faculty members were educated in the UK before they came to Libya to teach. The academic year was a nine-month year, with a bachelor degree being offered over a four year period (Garyounis University, 1972). Since 1976, the accounting programme offered by the Faculty of Economics and Commerce at Garyounis University has moved to the American model. The new system is based on two sixteen-week semesters instead of a full nine months academic year (Garyounis University, 1976).

*The University of Libya was founded in Benghazi in 1957, with a branch in Tripoli. In 1973 the two campuses became the Universities of Benghazi and Tripoli, and in 1976 they were renamed as Garyounis University and El-Fatah University.

In both systems, the programme focuses heavily on financial accounting topics, in particular on the technical or mechanical aspects of accounting, dealing with external reporting, taxation and external auditing. The only difference between them is that the old system was British orientated, while the new one is orientated towards America. Little attempt has been made to put together an accounting education system that addresses Libya's environmental needs (Buzied, 1998).

Regarding postgraduate level study, a Masters programme was offered by the Department of Accounting at Garyounis University in 1988*. The programme is organised into three components: core subjects, electives and a dissertation. The majority of the faculty members are Libyan graduates from the US or the UK. And hence, most of textbooks are either American or British (e.g., Drury, 1983), or Arabic books translated from American and British books (e.g., Hajaj and Saeud, 1989). Some are written by Arabic authors (e.g., Al-Nage, 1992, cited in Saleh, 2001) who have graduated from the US, the UK or Egyptian universities.

No university in Libya offers a PhD programme in accounting. Staff members with a PhD have all obtained their PhDs abroad (mostly the UK and US); and are either foreigners or Libyans who have been educated in these countries. The lack of a PhD programme is one of the main factors that have contributed to the slow development of accounting education and research in Libya (Ahmad and Gao, 2004).

The programme has also offered by Postgraduate Studies Academy in Tripoli and the Faculty of Accounting- at al-Jabal al - Gharbi University in Gahrian since the 1990s with almost the same textbooks and a similar curriculum of those of Garyounis University.

2.11 The Libyan Investment structure

The Libyan Arab Foreign Investment Company (LAFICO) is a Libyan wholly owned company which was established on 04th February 1981 under the law No.6 issued by the general people's committee. With an authorized capital of 500 million Libyan Dinar (LD) which is equivalent to 1.5 billion American dollars. On 31 December 1999 the company's paid up capital had reached an amount of 371,609,900 LD. LAFICO is an independent company in its management and activities. LAFICO's headquarters is located in Gharian city which is located at the top of the west mountains (100 Kms) south of Tripoli.

LAFICO is one of the largest foreign investment companies in Libya. LAFICO has a large network of overseas companies, branches and offices which represent LAFICO globally. The main investment business of this company is done between this company and other world wide companies in many different sectors (industrial, commerce, agriculture, services). The main purpose of the company is to initiate new projects or take over existing ones, in order to achieve profit.

Thus LAFICO has a large network of overseas companies, branches and offices which represent LAFICO all over the world.

CHAPTER THREE

THE CASH FLOW STATEMENT

3.1 Introduction

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

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

The growing importance in reporting cash flow data internationally can be seen from the International Accounting Standards Committee (IASC) issuing IAS7 (revised 1992), which took effect from 1 January 1994 and superseded IAS7 "Statement of Changes in Financial Position" issued in

July 1977. The objective of IAS7 (revised 1992) is to provide information about the historical change in cash and cash equivalents by means of a CFS. The CFS is classified into three standard headings cash flow from operations, investment, and financing activities. In the USA, the Financial Accounting Standards Board statement (SFAS 95) requires companies to include the cash flow statement in the financial statements of a company. This information is helpful in predicting a companies cash inflow and outflow as long as the past reflects the future. They adopted a similar approach to IAS7.

The assumption is that it facilitated investment and credit decisions related to the company.

3.2 Cash Flow Statement: A Historical perspective

CFS appears to have received little or no support from accountants until the early 1960s. At that time there was little concern over the use of 'cash flow' data in the financial analysis- cash flow being interpreted as 'profit plus depreciation. (.Winjum, J.o, 1972). In 1961 AICPA recognized the importance of funds statements by publishing an Accounting research study (ARS) NO 2 "Cash flow analysis and fund statements". Before that, accountants had prepared funds statements primarily as a management report. The Accounting Principles Board (APB) responded in October 1963 by issuing APB Opinion NO. 3 "the Statements of Sources and Application of Funds", which recommended that on a supplementary basis. Because of the favourable response of the business community to this pronouncement, The APB issued Opinion No. 198, "Reporting changing in Financial Position" in March 1971. This opinion required that a statement of changing financial position be presented as a basic financial statement and be covered by the auditors report.

In 1981 the Financial Accounting Standards Board (FASB) reconsidered funds flow issues as part of the conceptual framework project in 1976. At this time the FASB decided that cash flow reporting issues should be considered as a Standard. Subsequent deliberation resulted in Statement of Financial Accounting Standard (SFAS) no. 95, 'Statement of cash flows' in November 1987. (Weygandt, 1998: 1936)

3.3 Cash Flow Statement in Libya

The Libyan Accounting and Auditors Association (LAAA) issued the Libyan Accounting Standards Board in 2006 a standard (2) on cash flow statements. The standard defines cash flow and sets out the lay-outs of cash flow statements. The standard succeeds recommendations from the Libyan Accounting and Auditors Association (LAAA)

Definition of cash flow

Cash is cash in hand and deposits repayable on demand with financial institutions. Cash equivalents convertible into known amounts of cash without notice, are treated as cash. Normally, short term investments repayable within three months from the date of the advance are classified as cash equivalents. Cash and cash equivalents in foreign currencies are normally treated as cash. Only the cash effect of transactions is included in the cash flow statement.

Gross or net method

The cash flow should be reported on a gross basis. There are exemptions for cash flow related to

- Financial items with high turnover rate, large amounts and short terms
- Cash flow reflecting activities outside the company

Classification

The LAAA requires that the cash flow statement should be classified into

- operating activities
- investing activities
- financing activities

Method used

The LAAA equalises the direct and indirect method, but recommends the direct method. Most companies use the direct method. Reconciliation to operating profits should be provided in both cases.

Treatment of foreign currency cash flow, extraordinary items, interest and dividends, and tax on income

Cash flows arising from transactions in a foreign currency are recorded by using the exchange rate at the date of cash flow. Cash flows from extraordinary items should be disclosed separately under the ordinary classification. Interests and received dividends should be classified under operating activities, and paid dividends should be classified under financing activities. Taxes on income are for practical reasons classified under operating activities.

Other matters

Companies are recommended but not required to separate cash flows on investing activities between expansion and compensation.

3.4 Funds flow statement Vs Cash Flow Statement

Funds flow statements and CFSs have served as a fundamental part of the financial statements. In 1961, the AICPA issued ARS No. 2, "Cash Flow Analysis and the Funds Statements" which recommended that a funds statement covered by the auditor's opinion be included in companies' financial reports.

According to paragraph 5 of Preface to Statements of International Accounting Standards [approved by the IASC Board in November 1982 for publication in January 1983 and supersedes the preface published in January 1975 (amended March 1978)], *"the term 'financial statements' covers balance sheets, income statements or profit and loss accounts, statements of change in financial position, notes and other statements and explanatory materials which are identified as being part of financial statements"* (IASC, 2000:32) As per paragraph 7 of framework for the Preparation and Presentation of Financial Statements (approved by IASC board in April 1989 for publication in July 1989), *"A complete set of financial statements normally includes a balance sheet, an income statement, a statement of change in financial position (which may be presented in a variety of ways, for example as a statement of cash flow or a statement of fund flows) and those notes and other statements and explanatory materials are an integral part of the financial statements"*.(IASC : p. 43-44)

As per paragraph 4 of the previous IAS 7 (October 1977), statements of change in financial position, the term ‘ funds’ referred to cash, cash and cash equivalents or working capital (IFAC, 1992: p.813). Funds provided or used in operation of an enterprise should be presented in the statements of changes in financial statement separately from other sources and uses of funds. Unusual items, which are not part of ordinary activities of the enterprise, should be separately disclosed (IASC: Para 21). But many users of financial statements considered the practice of reporting fund flows as confusing because too much information is compressed in the statements of change in financial position, and because no single definition has been established. (Mosich and Larsen, 1982; p. 935) In order to develop a conceptual framework for financial accounting and reporting, the FASB issued in December 1980, a discussion memorandum” reporting Funds flow, Liquidity and Financial Flexibility” which was issued for the following reasons. (1) For assessing future cash flow.

(2) Current practices regarding the reporting of funds flow information were not entirely satisfactory. As a result of deliberation, FASB issued SFAS NO. 95 ‘Statements of Cash Flow’ in 1987. The statement requires the inclusion of a CFS rather than a Statement of Change in Financial Position when issuing a complete set of financial statements which was made effective for annual periods ending after July 15, 1988. The major requirements of the statement were of the following two areas. The statement must focus on cash receipts and payments and must explain the change in cash plus cash equivalents.

3.5 Classification of cash flows:

Cash flows are to be classified according to operating, investing and financing activities.

The basis of such classification is derived from financial theory, which states that an enterprise derives the cash used for investing activities and settlement of outstanding financial obligations in an accounting period from internal and external sources. Internal cash sources emanate from the net cash generated from current operations and perhaps disinvesting and depletion of cash resources at start of the period. External cash sources come from financing activities such as borrowing, and receiving cash from the sale of equity shares to existing and new shareholders. (Wallace et al 1997)

3.6 Objective and Scope of IAS 7, Cash flow statements

Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows. The economic decisions taken by users that require an evaluation of the ability of an enterprise to generate cash and cash equivalents and timing and certainty of their generation. The objective of IAS 7 is to require the provision of information about the historical change in cash and cash equivalents of an enterprise by means of a CFS that classifies cash flows during the period from

operating, investing and financing activities. An enterprise should prepare a CFS in accordance with the requirements of IAS 7 and should present it as an integral part of its financial statements for each period for which financial statements are prepared. Users of an enterprise's financial statements are interested in how the enterprise generates and uses cash and cash equivalents. This is the case regardless of the nature of the enterprise's activities and irrespective of whether cash can be viewed as the product of the enterprise, as may be the case with a financial institution. Enterprises need cash for the same reasons, however different their principal revenue-producing activities might be.

They need cash to conduct their operations, to pay their obligations, and to provide returns to the investors. Accordingly this standard requires all enterprises to present a CFS.

3.7 Benefits of Cash Flow Information

The information in a CFS helps investors, creditors, and others to assess the following aspects of the firm's financial position.

- (a) Such statements serve as a mechanism for predicting the ability to generate future cash flows for the investors, creditors and others.
- (b) This enables managers or management to plan coordinate and control financial operations in an effective manner.
- (c) It gives an indication of the relationship between profitability and cash generating ability thus of the quality of the profit earned.
- (d) It furnishes information to the management regarding the entities ability to pay dividends and meet obligations.
- (e) Analysts and other users of financial information often, formally or informally, develop models to assess and compare the present value of the future cash flow of entities. Historical cash flow statements could be useful to check the accuracy of past assessment.
- (f) It is free from manipulation and is not affected by subjective judgments or by accounting policies.
- (g) Such statements identify situations when a business has made huge profits but has run out of money or it has sustained loss but have enough cash availability.
- (h) The extent of cash generated from operational activity and external finance in order to meet capital, tax, and dividend requirements can be obtained from such statements. (Lee, 1972)

- (i) It aids in the evaluation of risk, which includes both the expected variability of future returns and probability of insolvency or bankruptcy.
(Hendrickson, 1982: 237)
- (j) Such statements reveal the capability of an enterprise to pay its short term obligations as and when due to the lenders.
- (k) A CFS in conjunction with a balance sheet provides information on liquidity, viability, and adaptability. The balance sheet is often used to obtain information on liquidity, but the information is rather incomplete for this purpose as the balance sheet is prepared at a particular point in time.
- (l) It may assist users of financial statements in making judgments on the amounts, timing and degree of certainty of future cash flows.
- (m) This statement provides information that is useful in checking the accuracy of past assessment of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing price. (IAS 7: Para 3 & 4).
- (n) Information on cash flows classified by three groups of activities (Operating, investing and financing) that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. This information may also be to evaluate the relationship among those activities. (IAS 7: Para 11).
- (o) This statement is of special importance in assessing future cash flows, quality of income operating capability, financial flexibility and liquidity, and information on financing and investing activities. Using cash flows from operating activities from the CFSs, different ratios such as liquidity

ratios, solvency ratios, and profitability ratios (Azizuddin and Bala, 2001: p. 14).

3.8 Presentation of Cash flow statement under IAS 7

3.8.1 Cash and cash equivalent:

The definition of cash and cash equivalents are central to the preparation and interpretation of CFSs. Cash consists of cash on hand and demand deposits, coins and notes of an organization. (Cooper and Ljiri, 1984) Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts which are subject to an insignificant risk of change in value. According to the definitions of paragraph 6, of IAS 7 cash comprises cash on hand and demand deposits; usually 'cash on hand' includes currency, notes, and coin in the cash box of the enterprise. It also includes bonds, negotiable money orders, postal orders, and undeposited checks, and bank drafts.

Demand deposits refer to deposits in current accounts in banks and other financial institutions that may be withdrawn without notice usually subject to deduction of outstanding cheques. Thus cash equivalents –

(1) Are short-term investments but the 'term' 'short' is not clearly specified, although a period of three months and less is suggested to take as a short-term period.

(2) Are highly liquid investments. Here 'liquid' means having a situation where cash equivalents are available in sufficient amounts to meet obligations due for payment.

(3) are investments that are both: (a) readily convertible, to known amounts of cash and (b) subject to an insignificant risk of change in

value. According to SFAC No. 95, the risk categorically refers to risk of change in interest rate. The short-term investment is so near their maturity that they represent insignificant risk of changes in interest rates. Examples included treasury bills, commercial paper, and money market funds purchased with cash that is in excess of immediate needs.

However, although by definition, cash equivalents refers to short term highly liquid investments, they are usually held for the purpose of meeting short term cash commitments rather than other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to insignificant risk of change in value. Therefore an investment normally qualifies as a cash equivalent only when it has a short maturity of, say three months and less from the date of acquisition. Equity investments are excluded from the cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date (Para 7).

3.8.2 Preparation of cash flow statements

IAS 7 requires cash flows to be classified into operating, investing, and financing activities.

3.8.3 Cash flows from operating activities

Cash flows from operating activities are in general the cash effects of transactions and other events relating to operating or trading activities.

Net cash flow from operating activities represents net increases or decreases in cash resulting from operations shown in the income statements in calculating profit from operations.

IAS 7 permits a choice between two possible methods for reporting net cash flow from operating activities.

- The **direct method** whereby major sources of gross cash receipt and gross cash payments are shown.
- The **indirect method** starts with profit before tax and adjusts it for non-cash charges and credits to reconcile it to the net cash flow from operating activities

3.8.4 The format and the classification of cash flow statements

Although there is general agreement between different accounting standard setters across the world on the objectives of CFS, there are differences between these regarding the format and the classification of CFS. In this section the format of CFS in the UK will be reviewed in detail, including the main differences between it and other countries.

According to UK FRS1 (1991, revised in 1996) the CFS should contain the following headings:

1. operating activities
2. return on investments and servicing of finance
3. taxation
4. capital expenditure and financial investment
5. acquisitions and disposals
6. equity dividends paid
7. management of liquid resources
8. financing

The UK IAS 7 indicated that the last two headings could be merged together under a single heading but subheadings should be given for each one. It also required the first six headings be reported in the above sequence. The explanation of the above headings is mentioned below:

Operating activities

Cash flows from operations are the cash produced from the normal activities, in either operating or trading activities. Normally, this cash is represented in operating profits. This also includes (1) provision whether it is considered as part of operating profits or not, and (2) dividends received from associated companies where the results are included as part of operating profit.

There are two methods in preparing operating cash flows: direct and indirect. Operating cash flows under the direct method represents the difference between mainly cash receipts from customers and cash payments to suppliers and to and on behalf of employees. Under the indirect method operating cash flow equals operating profit after excluding the effect of any non-cash transactions. These non-cash transactions represent changes in provisions like depreciation and amortisation. The ASB does not consider the reconciliation between operating profits and net operating cash flows as part of the CFS and should be given a separate heading if it is reported in it. The ASB also requires all companies to disclose this reconciliation as a note whether they follow the direct or indirect method in preparing operating cash flows.

Returns on investments and servicing of finance

Any cash representing the financing activities of a firm should be reported under this heading. Interest received and dividends received should be reported, except that reporting under operating cash flows make up the main sources of cash inflow from returns on investments and servicing of finance. Cash outflow mainly results from interest and dividends paid for non-equity shareholders such as preferred shareholders.

Taxation

This item is for any tax paid to and received from the relevant tax authority.

Capital expenditure and financial investment

This item includes cash flows related to buying or selling any fixed assets other than that included in 'acquisition and disposal'. It also includes cash flows from the repayments of reporting entity's loans to other entities or sales of debt instruments of other entities other than reported under 'acquisition and disposals' or 'management of liquid resources'. Loans made by the reporting entities and payments to acquire debt of other entities, other than cash equivalents is included as well.

Acquisition and disposals

Cash flows are those related to the acquisition or disposal of any trade or business, or of an investment in any associate, joint venture or subsidiary undertaking.

Equity dividends paid

All dividends paid to equity shareholders excluding any advance corporation tax.

Management of liquid resources

Includes cash flows related to changes in cash equivalent accounts.

Financing

Issuing shares or any other equity instrument and bonds or any other debt instruments are the main source of cash inflows. Payments to reacquire an entity's shares to redeem loans are the main source of cash outflows.

Comparing UK FRS1 (1991, revised in 1996) with other countries reveals many differences, the main differences are: (i) differences in defining cash; and (ii) differences in classification of some components of CFS. These differences might explain why the number of main headings in CFS varies between countries. For instance in the US, CFS contains three main headings: operating, investing and financing cash flows. However, in this section the following points will be highlighted:

1. the definition of cash;
2. the components of operating cash flows;
3. preparing operating cash flows;

The above points are chosen because of the following reasons: (i) the main aim of CFS is to clarify the source of change in a firm's cash; and (ii) operating cash flows is the main concern for most analytical research and represents the main component of CFS.

3.9 Definition of cash

Comparing the definition of cash among different countries reveals significant differences. For instance FRS1 defines cash as cash in hand and deposits plus cash equivalents, which are highly liquid investments that are convertible to known amounts of cash and that have short term maturities (usually less than three months).

The Canadian Institute of Chartered Accountants (CICA) defines cash as cash and cash equivalents which includes highly liquid investments net of short term borrowings. The Australian Accounting Standards Review Board (AASRB) defines cash as cash and cash equivalents which are defined as 'highly liquid investments which are readily convertible to cash on hand at the investor's option and which an entity uses in its cash management function on a day-to-day basis; and borrowings which are integral to the cash management function and which are not subject to a term facility'. Finally, the International Accounting Standards Committee (IASC) in International Accounting Standard No. 7 (IAS 7) adopted the FASB definition for cash (Donleavy, 1993, pp.144-158).

It should be noted that the narrowest definition of cash can be found in FRS1. Actually in the original version of FRS1 (1991) the definition of cash was cash and cash equivalents but because of confusion about the definition of cash equivalents the ASB changed the definition in its revision in 1996 and reported a change in cash equivalents as part of CFS under 'management of liquid resources'. This confusion in defining cash equivalents can be seen in the above paragraph between countries

such as between FASB and CICA. The ASB justified changing the definition of cash as follows:-

1. Avoiding an arbitrary cut-off point in the defining of cash equivalents;
2. Distinguishes cash flows arising from accumulating or using liquid resources from those for other investing activities;
3. Provides information about an entity's treasury activities that were not previously available to the extent that the instruments dealt in, fell within the definition of cash equivalents;

The FRS1 definition may provide more accurate information to investors and creditors about a firm's ability to meet its obligations. Donleavy (1993, p.161) in his comments on differences between countries in defining cash states that:

“The narrower the definition of cash, the sharper focus on liquidity”

3.10 The usefulness of CFS: Academics' Perceptions

The difference between earnings and cash flows is the difference in timing of recognizing revenues and expenses. Earnings recognize revenue as a firm provides services or sells products and recognizes expenses as receiving services or buying materials. On the other hand cash flows recognize revenues (expenses) as cash receipts (cash paid). Earnings recognition of revenues and expenses is based on the matching principle which implies that in order to measure the performance of a firm during a specific period all expenses that generate revenue should be reported together in the same period even though a cash transaction may not happen.

Lee (1987) criticized the accrual system and called for adopting a cash flow system. His criticisms can be summarized in the following points:

1. There is no specific meaning for earnings. Earning's figures summarize all the activities of a company that can be measured in monetary terms. The meaning of this figure depends on the methods of capital maintenance and valuation used.
2. The above problem affects the ability of earnings (or its related ratios) as a financial indicator of a company's financial position and performance. Different accounting procedures lead to different profit numbers for the same event and period.
3. Financial reporting is based on aggregating cash and non-cash items. The latter is determined subjectively. The proper accounting and

reporting system that can reduce non-cash items, which is unlikely to be the current system based on cost allocation.

4. Although different users have different interests, they have one interest in common, which is a firm's liquidity. This can be satisfied by providing information about the change in cash and cash equivalents. A cost allocation based system does not provide this information.

According to Lee, a CFS can overcome or at least minimize the deficiencies of the accrual system. The advantages of the CFS from Lee's point of view are the following (Lee, 1987; Lee, 1982)

1. It is relevant for all accounting users as it provides information about the change in cash and cash equivalents which is, eventually, the main concern for accounting users.

2. It is easily understandable by non-accountants because it is based on cash flow and sales price. This is supported by Tweedie's (1977) results. Tweedie (1977) asked first-year accounting students about their own thinking of accounting concepts. Most students' answers referred to cash flow rather than matching and the recognition principle. Moreover, they thought of sales price rather than replacement price.

3. Although the CFS may not be free from arbitrary judgments, it minimizes any possible manipulation as it depends on actual cash and sales price.

4. It reflects the actual economic facts without any distortion.

5. Providing information about the ability of a firm to survive and to pay its obligations are the main objectives of financial reporting. The CFS provides information about the entity as a going concern.

Finally, the FASB assertion which is in order to predict future cash flows, future earnings should be predicted first had been criticized. It had been argued that recording cash receipts and payments are the foundation of book entries, which are then arbitrarily adjusted by the accrual system to produce financial reports (Donleavy, 1994).

However, the CFS has also been criticized. Eggington and Rutherford claim that cash flows suffer from arbitrary allocation and eventually manipulation. For instance, debtors can be encouraged to pay by giving them large cash discounts. Donleavy (1994) quoted from Eggington that:

“Timeliness is crucial to accounting information; the interpretation of this year’s figures cannot wait next year’s results. More seriously, cash flow is simply not a measure of corporate performance in the way that earnings or profit are”

It is interesting to note that Lee shared Eggington and Rutherford’s point of view. Moreover, Lee (1987) admitted that cash flow has problems similar to those of other forms of reporting. He classified these problems into three points as follows:

1. Measurement problems: although the CFS summarises the actual cash transaction in specific time, personal judgment plays needs to be made when segmental reporting is prepared. Allocating items into ordinary and extraordinary items is also an arbitrary decision. Finally, classifying some items as operating cash flows or other forms of cash flows is also a personal judgment.

2. Disclosure problems: the problem relates to disclosing cash flow figures. The CFS contained different terms which might be misunderstood by users. For instance, short and long-term liabilities, capital expenditure, and cash equivalents. Also the amount of information that should be disclosed in this statement is an unsolved problem.

3. Usage problem: the CFS, as with other reporting forms, is not directly usable. Adjustment should be made before analysing it. This problem mainly related to classification and allocation problems.

CHAPTER FOUR

THE LITERATURE REVIEW

Cash flow statements distinguish between cash flows arising from operating, investing and financing activities. Even though net operating cash flow is the key component of this statement, the other two elements provide potentially important information to users.

In order to position the current study and provide a historical perspective and aid future research, this chapter critically reviews the existing literature under each of these headings.

- **Methods of Cash Flow Statement preparation**
- **Purposes of preparing Cash Flow Statements**
- **Cash Flow Information**

4-1 Methods of cash flow statement preparation:

Two methods of presenting (in CFSs) information of cash flows from operating activities: direct and indirect. Direct means to report in a straight-forward manner by revealing how much cash and cash equivalents came in from customer collections and how much went out in the form of payments to suppliers, employees, and other outside entities for goods and services. Indirect means not to follow the trading or operational sequence but to arrive at the net cash flow from operations by working backwards from net income. However, unlike the national pronouncements, IAS 7 (revised 1992) permits two formats of presenting each of the two methods.

However, the indirect method has also been criticised on two grounds (Henderson and Peirson, 2002). First, the detail is unnecessary and may confuse users. Second, the addition of expenses, such as depreciation, to calculate cash flows from operations suggests that expenses are a source of cash.

According to Lee (1997), the indirect method provides no additional information compared with a funds flow statement and therefore, it may not be as useful as the direct method.

Another problem of using the indirect method is that it is possible that disclosure of only net cash flows may conceal important operating, investing and financing activities. For example, a company may have had few debts settled and few new loans during a reporting period. If the

cash flow statement shows only net cash flows, it would disclose a balance in that debt account as an inflow or an outflow of cash. If the cash flow statement shows gross cash flows (ie direct method), it would show both a source of cash and a use of cash (Henderson and Peirson, 2002).

Analyses both of the direct method and/or indirect method of presenting operating cash flows in different countries have been described in the accounting literature. The debate as to whether companies should use the direct and/or indirect approach for their cash flow reporting is still a matter of discussion for some countries (Wallace et al., 1997). On the usefulness of the direct or indirect methods of cash flows reporting (Jones et al., 1995; Jones and Ratnatunga, 1997; Jones and Widjaja, 1998; Jones, et al, 1998; and Clinch, et al, 2002). These researchers have found that a variety of users prefer the direct method that assists them (together with other data) in making their decisions. For example, Jones et al., (1995) examined ratings of the direct versus indirect method by managers and other internal users of company reports and found wide spread support for the direct method of reporting cash flows. Jones and Ratnatunga, (1997) found strong support for reporting cash flows under the direct method by lenders and other users despite the direct method being considered more complex, costly and time consuming. Loan officers compared to financial analysts preferred to use direct cash flow information for their decision making (Jones and Widjaja, 1998).Clinch et al., (2002) revealed a strong association between the direct method of cash flow reporting (cash collection from customers, and cash paid to

suppliers and employees) and return on equity for industrial and mining firms in Australia. This study extends the existing literature by analysing perceptions of usefulness in terms of both internal and external users. The findings show that for managers, shareholders, and suppliers, the direct method helps them to understand cash flow data, satisfies their needs for decision making purposes and is relevant and reliable. On the other hand, employees and customers believe only slightly that the direct method is superior to the indirect method of reporting cash flow.

Wallace et al., (1997) describe this as a 'normative' approach as opposed to a pragmatic approach. Countries like Canada, the UK, and the US have chosen a pragmatic approach and permit entities to choose between the direct and indirect methods.

Wallace et al (1999) highlight the advantages of both the direct and the indirect methods. The main advantages of the indirect method are: ease of implementation: provides a clear picture about the differences between accounting income and CFS: minimizes management manipulation, and articulates CFS with other statements. On the other hand the direct method has the following advantages: understandable for non-accounting readers: users can compare similar types of receipts and payments across companies, Krishnan and Largay (2000). They compared the ability of past operating cash flows calculated using the indirect method and past operating cash flows calculated using the direct method in predicting future operating cash flows. They found that using the direct method in preparing operating cash flows enhanced the ability to use past cash flows in predicting future cash flows.

4-2 Purposes of preparing Cash Flow Statements:

Much of the literature has stressed that the prime purpose of reporting cash flow. Day (1986), aims to explore the following two issues:(1) the usefulness of all information in annual reports and accounts to investment analysts, and (2) the forecasting process used by investment analysts. Her sample contained 15 firms of stockbrokers. Her methodology was based on interviewing analysts and asking them to start analysing a company's accounts. Analysis of the results revealed that cash flow data is an important item for 11 analysts out of 15. The results also revealed that the majority of analysts aimed to forecast earnings per share. Nine of the analysts aimed to forecast cash flow to enable them to examine the expected changes in debt level which eventually helps them to assess the interest charge.

Reacting to the overwhelming adoption of a standard dealing with cash flow statements by the major standard-setting countries (Canada (1985), New Zealand (1987), USA (1987), South Africa (1988), UK (1991) and the IASC (1989)) within such a short period of time, Wallace and Collier (1991) carried out a 'multi-country comparison' and found that there were significant differences in the definition of cash and cash equivalents. The cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Using the annual accounts of 20 large non-financial listed companies selected from Canada, New Zealand,

USA and South Africa — they found considerable variation in the positions when defining cash resources used in cash flow statements.

In conclusion, the authors observed that as cash was not a unitary construct, the definition of cash had not proved simple... The most significant finding is that 'cash' is not always 'cash' in CFS, whether viewed from the perspective of pronouncements in national accounting standards or the perspective of cash flow information published in financial statements from across the world. The authors went on to state that the findings conflicted with the belief that the financial activities and performance of an enterprise would emphasise cash measurements because cash is more likely to be an objective reality compared with the 'conceptual' nature of accruals.

Hussey and Bence (1992) interviewed 21 investment analysts with a specific interest and responsibility in the health and household sector and found that majority of them preferred cash flows statements and perceived it as an improvement over funds flow statements.

Hung et al., (1995) examined the pros and cons of the cash flow statements and funds flow statements with an attempt to study the viewpoints of the Hong Kong financial statements users towards the usefulness of the cash flow statement. The results showed that there is a general trend towards cash flow reporting. Funds flow statements have been largely criticized because of ambiguous definitions and objectives, lack of comparability and poor indication of liquidity. Cash flow statements remedy this deficiency to a large extent. Their results also demonstrated that cash flow statements provide better financial

information to aid in evaluating a company's liquidity, solvency and financial flexibility. Financial statements users in particular the investment analysts and bankers perceived it as a better reference document for decision makings

Bahnson et al., (1996) looked at non-articulation¹ in cash flow statements and found many unexplained differences between expected operating cash flows and the amounts actually reported in cash flow statements. Using a sample of 9,757 US companies financial statements, the findings cast doubt on previous research undertaken using operating cash flows as this key variable was based on the assumption of articulation. However, the study discovered that articulation did not hold. The authors suggest that the FASB can greatly improve accounting practice by requiring companies to use the direct method for reporting operating cash flows. The authors concluded by stating that their analysis illustrated that the FASB' conclusions were based on untrue premises about the simplicity of the indirect method and the complexity of the direct method. By requiring the direct method, the FASB will produce benefits for all parties involved with or affected by financial reporting.

¹ Non-articulation is a phenomenon where unexplained differences exist between balance sheets and cash flow statements — in the sense that changes in the current asset and liability account balances presented on the former are often reported in the latter at significantly different amounts.

Barker (2001), aimed to answer the following question: how do institutional investors use accounting information? His sample was made up from analysts and fund managers in big UK companies. He used three methods in this sequence: observations, which aimed to collect primary data about the work and the methods, used in the analyzing process. Questionnaires aimed to clarify and quantify the findings of observations. Finally he conducted one-hour interviews to analyze in-depth issues that were raised in the first and the second processes. 42 companies participated in the questionnaire process while 32 analysts were interviewed. The number of fund managers who participated in the study was 16.

The results of the study were presented under two main headings: use of financial statements, and valuation methods used by analysts and fund managers. The results regarding the use of financial statements revealed that a profit and loss account is more important than other accounting statements. However, analysts and fund managers considered the cash flow statement very important as a complementary statement especially since it provides information about the liquidity of a firm and it helps them to assess the quality of earnings. The results also revealed that operating cash flow is the most important sub-heading in the cash flow statement. Analysts and fund managers considered it as an alternative measure of earnings. They also preferred the indirect method rather than direct method in preparing operating cash flows. It can be noted that

analysts and fund managers in the UK used cash flow statements in the way recommended by the Accounting Standards Board (ASB).

Boyd and Cortesa-Danile(2000/2001), examined how to use the CFS to improve credit analysis. They distinguished the information on a company's operating activities provided under the accrual and the cash basis of accounting, the income statement and the CFS Cash flow from operations, they said, can give the analyst a better understanding of the quality of the firm's earnings, and is generally subject to less distortion than net income. They also considered reporting income on an accrual basis to provide a superior method for measuring profit than does the matching of operating cash receipts and payments, and that the cash effects of earning activities provide useful information to the financial analysts. The latter is provided in the section on operating activities of the cash flow statement. They described the direct method as approaching the income statement from top to bottom, by making adjustments beginning with revenues and then expenses, working its way down the income statement. The indirect method approaches the income statement from the bottom, making adjustments to net income. *"Regardless of the method used, the end result is the same. Both approaches aim to answer the question: How was cash generated and used?"* of the two methods of preparing the CFS, they preferred the direct method. They did not investigate whether credit analysts actually use the information provided by the CFS, and whether the preference of the direct over the indirect method is justified.

Perceived decision usefulness of cash flow information to investors and analysts has been investigated by both Jones et al., (1995) and McEnroe (1996). The inconsistencies and ambiguities in cash flow statements released by US firms has been investigated by Nurnberg (1993), Bahnsonl et al, (1996), Nurnberg and Largay (1996).

McEnroe (1996) surveyed the attitudes of US financial analysts, investment advisors, accounting professors and accountants (public and private) towards certain cash flow statement disclosures that extended beyond the requirements of the various international Cash flow pronouncements. Two hundred respondents from each of 'Financial Analyst' 'investment Advisors' and Accounting Professors' groups and 800 respondents from 'Accountants' were randomly surveyed in the study. McEnroe (1996) found that in general the financial analysts and investment advisors were significantly more receptive toward the role of CFS in external financial reporting than were the other two groups. Both the financial analysts and the investment advisors were supportive of the proposal for the disclosure of accounting number "operating cash flow per share" in annual reports. The study recommended that, at least in the US, the Securities Exchange Commission and the FASB should allow more latitude in the reporting of CFA and permit this disclosure.

Wallace et al., (1999) the authors examined the characteristics and comprehensiveness of disclosure in cash flow statements published in the 1995 annual reports of UK firms and their relationships with selected firm-specific characteristics. Based on the data from a sample of 200 firms, the results suggested that the comprehensiveness of cash flow

reporting was an increasing function of firm size (however defined) and the percentage of total revenue from foreign sources and a decreasing function of return on sales. Also, that cash flow reporting comprehensiveness was not associated with net cash flow per share, liquidity leverage, and the number of foreign enterprise.

Kwok (2002) investigated bank loan officers' use of financial information and reports in particular cash flow information and the cash flow statement, in making lending decisions. Subjects were drawn from four groups of frequent users of financial reports- bank loan officers, auditors, financial analysts and accounting academics. Each subject was presented with the annual reports of two loan applicant companies to make two independent lending decisions based on the information provided in the cash flow statement. One of the companies was presented in the direct format, while the other was presented in the indirect format. The indirect format of cash flow statement was used as a surrogate for the funds flow statement. Results show that, while cash flow was the second most used financial information, the majority of the subjects obtained this information from financial statements other than the cash flow statement, notably, the balance sheet. In terms of financial report usage, notes to the financial statements, rather than the cash flow statement was most frequently used. No subject made use of the incremental information provided in the cash flow statement presented in the direct format. The results suggested that loan officers do not use the cash flow information provided by the cash flow statements, but rely on

the accounting information provided in the accrual-based financial reports.

Charitou and Venieris (1990) provided evidence from Greece about the importance of cash flow data. They examined the relationship between operating earnings, working capital from operations and cash flow from operations. They found that operating net income and working capital are correlated measures of profitability, while cash flow from operations was a better measure for liquidity and solvency. They reported that cash flow from operations could provide an indication of the liquidity and solvency problems of the failed firms several years before bankruptcy. Their main conclusion was that cash flow from operations provides information to investors and management and was different from the information that may be found in earnings.

4-3 Cash Flow Information

A number of studies have examined user needs and financial information uses. The former do not suggest that users were seeking information relating to CFS and liquidity, but rather that they preferred data on company profitability, quality of management and future expectations. However, those surveys have not specifically addressed CFS. In contrast, Lee's(1981b) survey did focus on CFS by investigating the views of professionally qualified accountants on whether they favoured the introduction of CFS in financial reports (Lee, 1981b). Generally the results showed that respondents were equally divided: 45% indicated that CFS should be introduced as an addition to the present external reporting system and 41% were opposed.

McEturoe (1989) partially replicated Lee's (1981b) study by surveying US audit partners. He found a greater percentage of respondents were in favour of the inclusion of a CFS in the annual report (75%) than Lee's study (45%). This result perhaps reflects the increasing discussion of CFS in the US during the 1980s and the move by the FASB to make the publication of CFS compulsory. Much of the research examining financial information uses has been conducted by Lee and Tweedie, (1977). Their earliest study (1975) found that private and institutional shareholders considered the income statement to be the most important financial statement. Respondents revealed little interest in liquidity.

Lee and Tweedie's (1977) more extensive private shareholder study found profitability data to be of particular relevance to 52% of respondents whereas only 7% categorized liquidity data in the same way. Additionally, 46% of respondents stated that they read the income statement thoroughly, whereas only 18% read the funds flow statement thoroughly. Note however, that *"these results must be taken in the context of the time at which the research was undertaken that is 1975. The funds statement had only recently become a professional accountancy requirement in the UK"* (Lee, 1983: 105).

Lee and Tweedie (1981) extended their research by examining the views of institutional investors and stockbrokers. Using interviews, they found that, despite their additional expertise and available resources for financial analysis, these 'expert' users gave results similar to the private shareholders: profitability was regarded as a much more significant financial indicator than liquidity (Lee and Tweedie, 1981: 73). Similar results were obtained in Arnold and Moizer's (1984) study of methods used by UK investment analysts to appraise share investments.

These studies revealed that interest in corporate liquidity was clearly secondary to that of profitability. However more studies have shown greater interest in CF information. Day's (1986) project, investigating the use and usefulness to investment analysts of the information contained in annual reports, found that 11 out of 15 analysts interviewed, considered CF data to be useful and important.

Epstein and Pava's (1992) survey of US shareholders showed that a majority of investors found the CFS useful (50%). While investors found

the income statement and the balance sheet more useful than the CFS, they did find that the income statement was used less since the introduction of the CFS when compared with results from an earlier (Epstein's 1975) study. However, whilst their study reported that the CFS is both read and used, it did not question respondents as to the reasons for their use.

Anderson and Epstein (1995), using a survey of Australian shareholders based on the Epstein and Pava (1992) study, found that the directors' report was the most thoroughly read section of the annual report followed by the profit and loss statement and chairman's report. Only 24% of respondents indicated that they read the CFS thoroughly.

(Jones et al, 1995) has revealed significant support for CFS by representatives of 210 public companies. It found that these preparers regarded CFS as having greater decision usefulness than funds statements. However this study reported managerial perceptions and internal company viewpoints of CFS rather than the actual views of external users. These results need to be confirmed against the responses of external users who use financial statements regularly and in a number of different decision contexts.

Results from these studies show consistency in some significant areas. Respondents generally regarded annual financial reports as important sources of information; though each section was not regarded as being of equal significance. Income data were regarded as a primary information source with liquidity data (at least in the earlier stages) being largely ignored, or being regarded as 'secondary material' when analysing

corporate results. Hence these earlier respondents do not appear to display the same level of acceptance of CF information as displayed in the academic and professional literature. Even though the Lee (1981b), McEnroe (1989) and Jones et al. (1995) studies show more support for CFS, their survey population was confined to professional accountants and preparers. Hana (1991) examined the incremental information content of cash flow and accruals announcements and the effect of firm sizes default risk and industry membership upon the strength of any cash flow relationship. He found that balance sheet proxy cash flow variables capture different or noisier information than do statements of change in financial position (SCFP) proxy variables.

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

Yap (1997) identifies four possible contributing factors of demand for cash flow information: (i) the limitations of conventional accrual accounting, (ii) dissatisfaction with the funds statement, (iii) relevance for users' decisions, and (iv) changes in the reporting environment. To

determine the extent to which investors and creditors agreed with these factors in favour of publishing cash flow data, a survey was conducted of workers in the finance industry in Australia. The results support the claims made in the academic and professional literature as to the need for cash flow information. Cash flow statements have become important sources of information for users. They have not, however, replaced the conventional income statement and balance sheet. All three financial statements are considered to be complementary.

Haw et al., (2001) investigated the relative and incremental information content of earnings, operating cash flows, and accruals in the emerging capital market of China. The issue is tested by regressing stock returns on the levels of earnings and their components. Based on a sample of 1516 firm-years for listed Chinese firms during 1995-1998, their results demonstrate that earnings have relatively little impact on the information content of operating cash flows. They also found that discretionary accruals provide incremental information beyond that contained in nondiscretionary accruals, consistent with the argument that discretionary accruals improve the relevance of earnings in reflecting the fundamental values of the listed Chinese firms.

Prior studies that focus on mature capital markets like the United States or United Kingdom examine whether accruals add information to operating cash flows to improve earnings' ability to explain returns and whether discretionary and nondiscretionary accruals are priced differently. Some researchers document that both operating cash flows and accruals have incremental information content over each other and

they are priced differently by the market (e.g., Bowen, Burghstahler, & Daley, 2006; Cheng, Liu, & Schaefer, 2005; Dechow, 2002; Wilson, 2004, 2006). On the contrary, other studies find little evidence of either component having incremental information content (e.g., Bernard & Stober, 2003). Recently, Subramanyam (2006) finds that the market prices discretionary accruals, possibly because the discretionary component improves earnings' ability to reflect fundamental value. Beaver and Engel (2006) and Walhen (2001) report that discretionary accruals have incremental information content in commercial banks' loan loss disclosures.

These studies focus on mature markets, such as in the United States. The role of accrual accounting has yet to be studied in the emerging capital market of China. Privately owned Chinese firms are at a young stage and are less known to investors. The accounting standards and practices in China are evolving slowly. Financial reporting and capital market systems, too, are relatively primitive and the quality of auditing is generally perceived to be low, compared to the mature markets of the United States and United Kingdom (Abdel-khalik, Wong, & Wu, 1999; Aharony, Lee, & Wong, 2000) where accounting systems are more sophisticated and investors relatively well informed. Some critics argue that accounting information in emerging capital markets like China may not be reliable or useful to investors.

The following table provides a detailed summary of the previous literature.

They are presented in chronological order:

Table 4.1 summary of previous studies.

Author(s)	Finding indicated that:	methodology
Lee and Tweedie (1981)	The study discovered that articulation did not hold. The authors suggest that the FASB can greatly improve accounting practice by requiring companies to use the direct method for reporting operating cash flows.	interview
Lee (1981b)	Generally the results showed that respondents were equally divided 45% indicated that CFS should be introduced as an addition to the present external reporting system an 41% were opposed	Questionnaire method
Day 1986	Analysis of the results revealed that cash flow data is an important item for 11 analysts out of 15.	interview
McEnroe (1989)	He found a greater percentage of respondents were in favour of the inclusion of a CFS in the annual report (75%) This result perhaps reflects the increasing discussion of CFS in the US	Questionnaire method
Charitou and Venieris (1990)	Their main conclusion was that cash flow from operations provides information to investors and management and was different from the information	interview
Wallace and Collier 1991	They found considerable variation in the positions when defining cash resources used in cash flow statements	Observation method
Epstein and Pava's (1992)	The shareholders showed that a majority of investors found the CFS useful	Questionnaire

Author(s)	Finding indicated that:	methodology
Jones et al, (1995)	Revealed significant support for CFS by representatives of 210 public companies. If found that these preparers regarded CFS as having greater decision usefulness than funds statements	interview
Bahnson et al 1996	The study discovered that articulation did not hold. The authors suggest that the FASB can greatly improve accounting practice by requiring companies to use the direct method for reporting operating cash flows.	Questionnaire method
McEnroe (1996)	Found that in general the financial analysts and investment advisors were significantly more receptive toward the role of CFS in external financial reporting than were the other two groups.	Questionnaire method
Jones and Ratnatunga (1997)	found strong support for reporting cash flows under the direct method by lenders and other users despite the direct method being considered more complex,	
Wallace et al 1999	Reported the advantages of both the direct and the indirect methods	Questionnaire method
Krishnan and Largay 2000	They found that using the direct method in preparing operating cash flows enhanced the ability to use past cash flows in predicting future cash flows	interview
Barker 2001	The study revealed that operating cash flow is the most important sub-heading in the cash flow statement	Questionnaire and interview

Author(s)	Finding indicated that:	methodology
Boyd et al 2001	This study preferred the direct method	Analytical tools
Haw et al 2001	The study demonstrates that earnings have relatively little impact on the information content of operating cash flows.	Observation
Clinch et al 2002	Found a strong association between the direct method of cash flow reporting (cash collection from customers, and cash paid to suppliers and employees) and return on equity for industrial and mining firms in Australia.	Descriptive
Kwok 2002	The cash flow was the second most used financial information, the majority of the subjects obtained this information from financial statements other than the CFS	interview

4-4 Motivation for the current research

The literature using cash flow data highlights the diversity of research in this area. A key finding of the review is that most researchers find CFS important within the context of their research. However, used in the majority of previous research, has been arrived at by adjusting accruals reported accounting numbers.

Of importance to this study is the lack of research in seeking the perceptions of users of CFSs in the Libya. There has been limited perceived decision usefulness of cash flow statements in the UK and the US. The current research will examine the significance of information contained in the CFSs.

To summarise there is a gap in the CFS literature on the significance of information which this study addresses. The research seeks to fill in this gap through a longitudinal investigation the significance of information contained in the cash flow statements in Libyan investment companies. The study provides an opportunity to contribute knowledge from the perspective of a developing economy in a North African country.

Finally, the specific focus on the significance of information contained in the cash flow statements will add to and extend the knowledge.

Therefore this study to achieve the follows objectives:

- To analyse to what extent the alternative methods of cash flow statement preparation assist in evaluating the operating activities of companies by investors.
- To investigate the purpose of preparing cash flow statements in Libyan investment companies
- To investigate to what extent the cash flow information helps present and potential investors and creditors in their decision-making.

CHAPTER FIVE

THE RESEARCH METHODOLOGY

5.1 Introduction:

This chapter outlines the research methodology employed in the study. The next section discusses the research strategy. The study has used both quantitative and qualitative methods; therefore, the philosophical assumptions that guide the research are discussed in order to justify the methodology of the study. The research methods adopted (interview and questionnaire survey methods) are then discussed with detailed procedures of each.

5.2 Research strategy:

Burns (2000:3) defined research as “*a systematic investigation to find answers to a problem*”. Sekaran (2003:5) defined business research as “*an organised, systematic, data-base, critical, objective, scientific inquiry or investigation into a specific problem undertaken with the purpose of finding answers or solutions to it*”. It can be noticed that the two definitions have the same meaning in terms of finding answers and solutions to specific problems.

It can be argued that social research is a method of understanding and making connections between actions, experience and change. In this sense, Gilbert (1993) explains that good social research should include three main ingredients: the construction of theory, the process of data collection and the design of methods for gathering data. Therefore, the first element is the research strategy that is available to the researcher

and the tactics for the work in hand. However, the research strategy could be a general plan of how to answer the research questions. It should include clear objectives that are derived from the research questions (Remenyi et al 2002). Remenyi et al (1998) argued that setting and choosing a research strategy that accompanied the tactics of the research is considered as the most important step in the initiation of the research work. They added that the researcher should first decide if the research is theoretical or empirical. Remenyi et al (2002) differentiate between strategy and tactics. However, the first refers to the overall approach adopted while the second one is about the specific details of data collection and analysis, therefore, the existence of the research strategy would allow researchers to ensure a conceptual framework for their studies.

5.3 Research paradigms:

Collis and Hussey (2003) used the term paradigm to the progress of scientific practice based on people's assumptions about the world and the nature of knowledge. They identified two main research paradigms; positivist and phenomenological paradigms. The philosophies behind the two paradigms are different. These differences are summarised by Cassell and Symon (1994:2) when they mentioned "*the assumption behind the positivist paradigm is that there is an objective truth existing in the world which can be revealed through the scientific method where the focus is on measuring relationships between variables systematically and statistically*". While Hollway (1991) argued that the quantification is

at the heart of social sciences' claim to scientific method. The key concerns are that measurement has to be reliable, valid and generalizable in its clear predictions of cause and effect.

5.4 Positivistic paradigm:

Denscombe (2001:299) defined positivism as “*an approach to social research which seeks to apply the natural science model of research to investigations of the social world*”. This approach assumes that there are clear patterns and regularities, causes and consequences in the social world, just as there are in the natural world (Denscombe 2001). More recently, Bryman (2004:11) defined positivism as “*an epistemological position that advocates the application of methods of the natural sciences to the study of social reality and beyond*”. The above two definitions highlighted the idea of applying the methods used in the natural sciences in social sciences. Easterby-Smith et al (2002) argue that the main idea of positivism that the social world offers extremes and therefore its properties should be gauged through objective methods rather than being inferred subjectively through sensation, reflection or hunch.

According to the positivists, this approach provides the basis for explanation, permits the anticipation of phenomena, predicts their occurrence and therefore allows them to be controlled. However, explanation includes the process of establishing causal relationships between the variables by establishing causal laws and linking them to a detective or integrated theory (Collis and Hussey 2003).

Scott (1997) suggested that positivists believe that there are no meaningful differences between natural and social sciences methodologies. In line with this argument Collis and Hussey (2003) suggested that positivism is founded on the assumption that studies conducted in human behaviour should be conducted in the same way as studies carried out in the natural sciences, so it attempts to place social research in the same realm as scientific research.

However, positivism was criticised by some authors. It was argued that establishing a relationship between variables depends on defining these variables. They explained that it is not possible to treat subjects as being separate from their social environments and they cannot be understood without examining the perceptions they have of their own activities (Remenyi 1998 and Mashat 2005). Furthermore, Collis and Hussey (2003) also criticised positivism in terms of researchers' objectivity, in particular, the part of what they observed. It is argued that researchers introduced their own interests and values to the research.

5.5 Phenomenological paradigm:

Collis and Hussey (2003) refer the term phenomenology to the science of phenomena. They explained the word phenomenon is derived from the Greek verb to appear or show. Allan (1991:893) defined a phenomenon as "a fact or occurrence that appears or is perceived, especially one of which is the cause in question".

It is argued that the phenomenological paradigm to research needs to be contrasted with the positivistic methods. In contrast with positivists-

beside the basic belief that the world is socially constructed and subjective-, the phenomenologists do not see the world as consisting of an objective reality. According to the phenomenological paradigm, researchers mainly focus on the meaning rather than facts, to try to understand what is happening, look at the totality of each situation and develop ideas through induction from evidence (Remenyi et al 2002).

However, Cohen and Manion (1987) considered it as a theoretical point of view that helps in studying the direct experience taken at face value and one that sees behaviour as determined by the phenomena of experience rather than by external, objective and physically described reality. Therefore, Remenyi et al (1998) point out that the phenomenological paradigm is increasingly accepted among business and management scholars and considered to be suitable for this type of research.

The phenomenologist believes that the world can be modelled, but that should not be in a mathematical method, they believe that a verbal, diagrammatic, or descriptive model could be acceptable (Remenyi et al 1998).

The phenomenological paradigm is described as a qualitative method that stresses the subjective aspects of human activity that focuses on the meaning rather than measurement of social phenomena. It is suggested that this approach is described as the descriptive/interpretive method and stipulates that every event should be studied in a unique incident in its own right (Remenyi et al 1998, Collis and Hussey 2003; Mashat 2005).

5.6 Quantitative research method:

One of the most important benefits of quantitative research is the requirement that the sample used in the study reflects the attributes of the population under study. The findings produced by the study relate to the whole population and therefore, the conclusions drawn could be pertinent to the population (Sarantakos 1998). This attribute of social sciences is known as representativeness. Beside the representation issue, quantitative methods have the advantage of using standardized measurements. This argument was supported by Patton (1990:14) when he mentioned *“quantitative methods entail the use of standardized measures so that the varying perspectives and experience of people can fit into a limited number of predetermined response categories to which numbers are assigned”*.

In this study, to test the research hypotheses, a quantitative research method will be employed in form of a questionnaire survey.

5.7 The questionnaire survey:

As explained above, the main objectives of the research are to highlight the views and perceptions of officials at the Libyan Investment Companies.

For exploratory purposes, in this type of research, empirical work is considered to be important. Therefore, the researcher used the questionnaire survey method as a questionnaire was determined to be the most efficient and economical method of collecting data. Saunders et al (2000:278) considered questionnaires as a general term to include all

techniques of data when respondents are asked to respond to the same set of questions in the same order. In the same vein, Collis and Hussey (2003:173) argue that questionnaires are related to positivistic and phenomenological methodologies. They defined a questionnaire as “a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample. The aim is to find out what a selected group of participants do, think or feel”. In the same context, Sekaran (2003:236) defines a questionnaire as a *“preformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives”*. Sekaran (2003) viewed the questionnaire tool as the most efficient and important one in collecting data when the researcher exactly knows what type of information he needs and how to measure the study variables. The next section will review the types of questionnaires in general and the ones used in the study.

5.8 Types of questionnaires:

In order to collect the data needed for the purpose of testing the research hypotheses, the researcher conducted a survey covering the officials at the Libyan Investment Companies. Haimon (1998) explains that the processing of survey data through advanced analytical methods has been one of the foremost means of social investigation. However, the idea of conducting a survey starts with the desire to measure some characteristics of a population. Thus, a survey can be useful to describe a population and constructing models for analysis. For this reason the data

gathered through a questionnaire can be used for both descriptive and analytical uses.

Gilbert (1993:95) states that a “*sociologist also regards surveys as an invaluable source of data about attitudes, values, personal experiences and behaviour. Researchers use face-to-face or telephone interviews or postal questionnaires*”. Jankowicz (1995) argues that researchers carry out a survey to get views of what people think, believe, value or feel, in order to discover these views for their sakes, or to support an argument that they are presenting.

There are some alternative ways to conduct a survey. Among these methods are telephone interviewing, mail questionnaires and self-administered questionnaires. Each of these methods has advantages and disadvantages; therefore, the following sections will highlight these methods and reflect the advantages and disadvantages of each one:

5.9 Telephone interviewing:

The telephone interview costs approximately half what a face-to-face interview costs (Dooley 1990). Czaja and Blair (1996) explain that telephone numbers can be selected in different ways. It could be done through random selection from a phone book or created by using an existing telephone number and dropping one or more of the last four digits and substituting random numbers.

Advantages include:

- Random digital dialling sampling of general population.

- It gives the researcher better chances of accessibility to interviewees when compared to personal interviews.
- Lower cost than personal interviews.
- Shorter data collection periods.
- In terms of research administration, it has the advantage of easy administration when compared with a mail survey.
- It needs smaller staff to conduct the survey.

Disadvantages include:

- It is less reliable in the case of sensitive questions.
- Non-response associated with random-digit-dialling sampling is higher than personal interviews.
- Telephone interviewees may produce more missing data on income questions.
- If the questions are long and complicated, respondents will face some difficulties.

5.10 Mail questionnaires:

This type of questionnaire requires the researcher to send questionnaires and covering letters by mail to the population. Researchers usually provide participants with a prepaid envelope. This type of questionnaire is considered to be the most common method as many researchers use it. Sarantakos (1998) point out that the main characteristic of this method is that respondents offer data with limited interference on the part of

research personnel. The main advantage of this type is the low cost and it saves time compared to other techniques such as interviews and self-administered questionnaires (Hakim 1987, Sarantakos 1998; and Sekaran 2003). Other advantages of mailed questionnaires could be categorised as follows:

- Can offer a considered and objective view on the issue, i.e. give the respondent the opportunity to consult their files and colleagues as many respondents prefer to write rather than to talk about certain issues.
- Can be completed at the respondent's convenience, in other words, at their homes and at their own pace.
- Can promise a wider coverage, considering that researchers can approach subjects more easily than other methods.
- The use of mailed questionnaires may reduce the possibility of bias that is caused by the presence or attitude of the interviewer.

There are some disadvantages of mailed questionnaires (for example see Sekaran 2003, Collis and Hussey 2003; and Saunders et al 2003).

However, they identified the following disadvantages:

- Researchers will not be confident that the right person has responded to the questionnaire because the respondent's identity and the conditions, under which the questionnaire was answered, are unknown.
- The possibility of a low response rate and, as a result, it would be very difficult to establish representativeness of the sample

because the respondent may not represent the population they are supposed to.

Furthermore, one can argue that Libya, as a developing country, has a very poor postal system. As result researchers in Libya rarely rely on mailed questionnaires.

5.11 Personally administered questionnaire:

Collis and Hussey (2003) consider that personally administered questionnaires as one of the best tools for data collection. In line with Collis and Hussey (2003), Sekaran (2003) view the personally administered questionnaire as an effective method, if the survey is confined to a local area and the researcher wants to target a group of respondents at their place of work.

In highlighting the advantages of personally administered questionnaires, Collis and Hussey (2003) and Sekaran (2003) suggest the following advantages:

- Researchers can collect the completed responses within a short period of time, so it can be argued that this type of questionnaire offers a high response rate and minimises interviewer bias.
- If there are any doubts raised by the respondents, the researcher or a member of the research team could clarify them on the spot.
- The researcher can introduce the research topic to the participants by explaining the research themes, encourage and motivate them to respond frankly.

- Administering questionnaires to large numbers of respondents at the same time is less expensive and consumes less time than interviewing.
- It does not need much skill to administer the questionnaire as to conduct interviews.
- It gives the researcher the opportunity to check the completeness of the questions in the questionnaire.

Disadvantages can be summarised as:

- It is more costly than other methods, in particular, when carrying out a survey to a large number of participants who are geographically separated or abroad.
- Respondents may hesitate to respond to sensitive issues.

The current study employed two types of questionnaires; personally administered and mailed questionnaires

5.12 Relevance of questions to the research objectives:

One of the major problems of designing a questionnaire is the formulation of questions. In this aspect, it is suggested that all questions should be relevant to the objectives of the study; however, the researcher considered the following:

- (1) Each item in the questionnaire should have a certain role in the study. In other words the purpose of each question should be clear in

order to fulfil its purpose. Furthermore, every group of questions in each scale of the four scales is aimed to test a certain variable.

(2) Before including an item in the questionnaire, the way it was to be analysed, the statistical techniques to be used and the manner in which it was to be published or presented were decided.

5.13 The sources of the ideas for the questionnaire:

The main sources of ideas for questions were mainly derived from an extensive review and analysis of the existing literature regarding the following issues:

- 1- Methods of preparation of the cash flow statement.
- 2- Purpose of preparing the cash flow statement.
- 3- Effect of cash flow information.

Many materials used in this questionnaire were adapted from Messier and Schneider's (1988) and Tiessen and Colson's (1990) work.

5.14 The rationale for questions:

The final version of the questionnaire was divided into two sections; the first section included the demographic data while the second section was designed to test the three main variables of the study. The main purpose of this survey is:

- To analyse to what extent the alternative methods of cash flow statement preparation assist in evaluating the operating activities of companies.

- To investigate concerning the purpose of preparing cash flow statements in Libyan companies.
- To investigate to what extent the cash flow information helps present and potential investors and creditors in their decision-making.

5.15 The process of the questionnaire design:

Depending on the type and size of a survey or a study, the researcher should develop questions and design a proper questionnaire that would facilitate the entry and statistical analysis of the collected data.

The first stage in carrying out a survey is the questionnaire construction, the respondents will be asked, what questions will be asked and question wording. One of the most important elements is to ask the right questions and construct them in the right order and format.

The design of the questionnaire was based on an extensive literature review to compare and assess the questionnaire with other questionnaires developed by other researchers. However, the validity and reliability of the data collected and the response rate achieved depend, to a large extent, on the design of questions, the structure of questionnaire and the rigour of the pilot testing (Saunders et al 2003). In this aspect, Sekaran (2003) explained that questionnaire design should focus on three areas. The first deals with wording of the questions. The second relates to the process of planning of how the study variables will be categorised, scaled, and coded after receipt of responses. The third refers to the general appearance of the questionnaire and pre-testing process.

5.16 The wording of questions:

It is important that each survey question will need careful consideration to ensure that the responses are valid. Sekaran (2003) suggested that the questions asked, the language used and the wording should meet the respondents' attitudes, and perceptions. Saunders et al (2003) suggested the following guidelines for wording questionnaires:

- 1- The questions should be clear, straightforward, and use simple language and common concepts, most importantly, words used in questions should be familiar. Every effort was made to use simple, straightforward and familiar terms.
- 2- Spelling out exactly what was precisely required from each question, a set of questions or a scale. The study questionnaire considered this issue.
- 3- Avoidance of biased questions. A biased question is a question that makes one response more likely than another, regardless of the respondent's opinion. Therefore, the study questionnaire avoids biased questions as much as possible.
- 4- Make sure that the questions are short and direct, because long questions are difficult to understand and consume the respondent's time and make the respondent less willing to participate, and indirect questions increase the probability of the question being misunderstood. This questionnaire used short and direct questions as well as avoiding indirect questions.

5- Avoidance of leading questions; this type of question is defined by Kumar (1999:120) as *“one which, by its content, structure or wording, leads a respondent to answer in a certain direction”*. Therefore, employing emotive suggestive language or the way a question is rephrased can lead the respondents to answer questions in one way. Thus, this questionnaire attempted to ensure that phrasing questions in such a way was avoided.

6- Avoidance of ambiguous wording, using familiar terms that allow all respondents to understand them in the same way. Every effort was made to use simple and familiar terms.

7- On the one hand, questionnaires should avoid the usage of negative questions because negative questions may confuse the participants especially when asking them to indicate whether they agree or disagree. On the other, it was suggested to include some negative questions (Sekaran 2003). In the study questionnaire, very few negative statements were used.

5.17 The order and the flow of the questions:

It can be argued that a well-sequenced questionnaire enables rapport to be built between respondent and researcher, as a result encouraging questions to be completed. The sequence of the questionnaire should follow the “funnel” approach, i.e. the sequence of questions should consider that the respondent is led from the general questions to specific questions, and from relatively easy questions to those that are progressively more difficult (Sekaran 2003). Therefore, in constructing

the study questionnaire, a few rules had to be taken into account before the completion of the final draft. These include:

- 1- Group questions on similar topics into sections in order to facilitate the process of structuring the questionnaire and provide a flow. Therefore, the questionnaire was split into two parts; the first dealt with the demographic information. The second part consisted of four sections (scales).
- 2- Broad questions that are followed by questions that were determined by the respondent's initial response.
- 3- Start with questions that respondents will prefer to answer.
- 4- Begin with easy questions and reflect that the purpose of the questionnaire was to establish in the respondent's views rather than testing their knowledge.
- 5- Make sure that the study questionnaire questions are relevant to the respondents.
- 6- Minimise the usage of open-ended questions, and place them at the end of the questionnaire.

5.18 The type of questions:

One of the important steps in questionnaire design is how to choose the type of questions. Types of questions refer to whether the question will be open-ended or closed questions (Sekaran 2003), therefore, each type has its advantages and its difficulties. Remenyi et al (2002) argued that open-ended questions are suitable for exploratory studies where the researcher is not in a position or is not willing to pre-specify the response

categories. Regarding the advantages of open-ended questions, it allows the respondents to give more information and give their personal opinions in their own words. These questions allow respondents to answer questions in any way they want, in addition, open-ended questions are easy to ask. The main disadvantage of open-ended questions is that they require the respondents to spend time on giving a full answer to the question; therefore, this type of question may deter busy respondents from replying to the questionnaire because they need time and effort to answer. Moreover, they require more paperwork and make the questionnaire appear longer and as a result may affect the response rate. Finally, the analysis of an open-ended questionnaire is more difficult and the information collected may lead to a collection of worthless and irrelevant information (Remenyi et al 2002, Sekaran 2003, Collis and Hussey 2003).

In contrast, with close-ended questions, respondents' answers are selected from a number of alternatives. These questions would ask the respondents to make choices among a set of alternatives given by the researcher. These types of questions require exploration before their construction, to take into consideration all possible answers. The difficulties of close-ended questions that they are difficult to design. Vaus (2001) explained that close-ended questions may create false opinions in the form of providing a limited range of options from which to choose or by encouraging the respondents with acceptable answers. Moreover, respondents may get frustrated by not stating their views in

the way they want (Denscombe 2003). However, these questions are convenient for collecting data, easy to answer code, and analyse as the range of answers are limited. Furthermore, a large number of questions can be asked; therefore, this approach to questions is useful when the motivation of respondents is not high. Moreover, this approach encourages respondents by giving the impression of timesaving. Finally, the answers are standard and can be compared from one person to another.

The main type used in the construction of the study questionnaire was close-ended questions.

5.19 Scaling process:

Sekaran (2003:185) defines scale as “a tool or mechanism by which individuals are distinguished as to how they differ from one another in the variables of interest to our study. The scale or a tool could be a broad one in the sense that it would only broadly categorise individuals on certain variables, or it could be a fine-tuned tool that would differentiate individuals on the variables with varying degrees of sophistication”.

The study questionnaire used different styles of close-ended questions. For example, the questionnaire used some of the closed questions such as dichotomous questions that offer only two fixed alternatives that respondents must choose one of them. Such questions are about the respondents' gender. Others were multiple choice questions that offer a range of alternative answers from which the respondent has to choose.

These include, age, qualifications, and experience. There were multiple-response questions to allow respondents to choose many answers.

Ordinal scales are used when the respondent is asked for responses in the form of a rank ordering as the evidence is put into categories. The numbers assigned indicate the ordering of the categories (Remenyi et al 2002). In this questionnaire, they were asked to circle one of the five boxes on a five-point scale that ranged in agreement from (1) strong disagreement to (5) strong agreement. Therefore, an interval scale is found to be suitable for this study. A Likert-type scale is employed in this study. This type of scale suggested that every statement in the scale has the same attitudinal value, weight or importance in order to reflect an attitude towards the issues examined by the scale (Sekaran 2003).

5.20 The pilot procedures of the questionnaire study:

Remenyi et al (2002) explain that pre-testing of the questionnaire should be conducted before the final administration. The main objective of pilot work of the questionnaire is to avoid any shortcomings in the design and administration of the questionnaire. However, they argued that the approaches to pre-testing could be an informal one that involves consultation with friends, colleagues and experts or it could be more formal involving a pilot study which is a replication, on a small scale of the main study. In line with Remenyi et al (2002), Sekaran (2003) stress the importance of pre-testing the instrument used in a survey to ensure that the questions are understood by participants. There is no ambiguity in the questions, and there are no problems in wording and

measurements used. Oppenheim (1992) listed the following aims for conducting a pilot study:

- 1- To test the reliability and validity of the instrument to avoid any future problems.
- 2- To ensure the accessibility to the study participants.
- 3- To confirm the future co-operation with the participants.
- 4- To test the methodological techniques.

A number of procedures were employed before conducting the final survey. The first step in piloting the questionnaire involved the first draft of the questionnaire being formulated in the English language. It was presented to the supervisory team to give their comments on the questionnaire as well as my colleagues (PhD students and PhD holders).

In the second stage, the questionnaire was translated into Arabic with a help of expert colleagues in Arabic and English languages. The translated draft was discussed with PhD students whose native language is Arabic. The two copies, English and Arabic versions were sent to four academic staff in Libyan universities. Some amendments were made to the Arabic version. At a later stage the Arabic translation of the questionnaire was then translated back into English by the same expert colleague in Arabic and English languages. After comparing the latter English version of the questionnaire with the original, the researcher was satisfied with the accuracy of the translated version.

The last step of pre-testing the questionnaire was the pilot study. The data used for this pilot study was collected from two sources, the officials at the four companies representing the sample because each company has capital of 50% Libyan and 50% international ownership and the investors.

For the officials, the sample includes general directors, internal auditors, directors of departments and senior and junior staff at the accounting departments for each company.

Four interviews with officials at the Libyan Investment Company were undertaken as they represent the investors and 43 questionnaires was circulated to general managers, internal auditors, directors of departments and senior and junior staff at the accounting departments for each company

All respondents, except three, reported as requested, the time taken to complete the questionnaire. Most of the respondents reported that it took between fifteen to twenty five minutes, with an average of 20 minutes.

In general, the findings on the layout and completion of the questionnaire can be summarised in the following three points:

- 1- There were no complaints regarding the length of the questionnaire from the respondents.
- 2- No complaints were passed to the researcher about the questionnaire's clarity and layout.
- 3- There were no complaints regarding the 5-point scale.

The data collected from the pilot study were analysed using the SPSS computer program to test the appropriateness of these scales to measure the study variables. The test used in this study was Analysis of Variance (ANOVA) with a level of significance of $p = .005$.

5.21 Population and sample

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

Interviews were undertaken for two groups Preparers and investors are represented in the sample of interviewees and are expected to provide information in private meetings. They are expected to explain issues related to the significance of information contained in the cash flow statements of Libyan companies

5.22 Data Analysis

There are many statistical techniques which can be used, in analyzing the data captured by the research questionnaire. According to Oppenheim (1992) different statistical tools are used for different purposes; depending on the nature of the data.

In this respect, Pallant (2001) suggested that when designing research, this gives them a wider range of possible techniques to use when analysing their data.

Researchers should try to use continuous data rather than categories to measure their dependent variable.

He, however, pointed out that before deciding which tests to use, the types of data should be determined (Parametric or non-parametric). Moreover, there are five assumptions that traditionally guide the researcher to parametric analysis:

- Level of measurement: the dependent variable measured at the interval or ratio level, which is, using a continuous scale, rather than discrete categories.
- Random sampling: the scores are obtained using a random sample from the population.
- Independence of observations: the observations that make up the research data are independent of one another.
- Normal distribution: the population from which the samples are taken are normally distributed. He states that with large sample sizes (30 or more); the violation of this assumption should not cause any big

problems.

- Homogeneity of variance: the samples are obtained from populations of equal variances.

In respect of applying these criteria to this research, the sample is greater than 30 and they were selected randomly from a normally distributed population.

Therefore, the methods and techniques used in this research include (a) descriptive statistics (b) One-way ANOVA test. The descriptive statistics method comprises frequencies (counts and percentages), measures of central tendency (mean). Frequencies enable researcher to describe the characteristics of the studied sample and to know the frequency distributions of the variables under investigations. According to Berenson and Levine (1999:60) a frequency distribution is "a summary table in which the data are arranged into conveniently established, numerically ordered class groupings or categories." Grouping, or condensing, the observations into frequency distribution tables make the process of data analysis and interpretation much more manageable and meaningful. Measures of central tendency and dispersion, which include statistics such as means, median, standard deviations etc., also enables the researcher to characterise the observations in a meaningful way. In this respect Sekaran (2003) argues that measures of central tendency and dispersion in the data will give the researcher a good idea of how the respondents have reacted to the items in the questionnaire and how good the items and measures are. "We can acquire a feel for the data by checking the central tendency and the dispersion" Sekaran (2003:306).

The 'mean' was the main statistical measure employed in this study to analyse the participants' returns. The idea is that for a particular item on the questionnaire, the researcher aims to compute the mean value that underscores the respondents' behaviour with respect to the stated research question and/or hypothesis. The questionnaire employed in this research used a five-point scale that ranged in agreement from (1) strong disagreement to (5) strong agreement. Therefore, an interval scale is found to be suitable for this study. A Likert-type scale is employed in this study. This type of scale suggested that every statement in the scale has the same attitudinal value, weight or importance in order to reflect an attitude towards the issues examined by the scale (Sekaran 2003).

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

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

5.23 The response rate:

One of the most important issues discussed in the advantages and disadvantages of questionnaire surveys was the response rate (section 4.8). Bryman (2004) argued that the notion of a response is a common one in social research, however, he defined the response rate as “the percentage of a sample that does, in fact, agree to participate” (Bryman, 2004:98). Regarding this issue, Collis and Hussey (2003) and Saunders et al (2003) explained that the main disadvantage of questionnaire surveys is the low response rates. The response rates produced by mailed questionnaires are generally poor when compared with other survey methods, for example personally administered questionnaires. In connection with this issue, Saunders et al (2003) argued that the most common reason for non-response is that the respondents refuse to answer questions or to be involved in the survey and sometimes the selected respondents may not meet the research requirements and will be ineligible to respond. Furthermore, Vaus (2001) categorised the major problems of low response as, it creates an unacceptable reduction of sample size and also it ends in bias.

Considerable effort was given to avoid the problems of non-response and to ensure the completeness of the questionnaire. The questionnaire was designed with a majority of close-ended questions that enable the respondents to complete it easily. According to the results of the pilot study, the questionnaire wording was simple, of reasonable length and brought no complaints regarding the questionnaire clarity and layout. Most of the questionnaires were personally administered. Therefore, the

disadvantages of mailed questionnaires were avoided as much as possible.

Regarding the questionnaire response rate, the overall response rate was 83.7% (see table 5.1). Remenyi (2002) suggested that a response rate above 60% is considered to be exemplary. The response rate for Agricultural companies was 90%. This is considered to be a high response rate while a low response rate for services companies was 72.7%.

Table 5.1 Response rate for the questionnaire survey

<i>Group</i>	<i>Distributed questionnaires</i>	<i>Useable questionnaires</i>	<i>Response rate</i>
Service company	55	40	72.7
Manufacture company	60	53	88.3
Commercial company	50	42	84
Agricultural company	50	45	90
Total	215	180	83.7

5.24 Qualitative research method:

Bryman (2004) views qualitative research as a research strategy that usually considers words rather than quantification in the process of data collection and analysis. In line with Bryman (2004), Sekaran (2003) argues that qualitative data refer to information gathered in a narrative form through interviews and observations. However, qualitative research, broadly defined as “any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification” (Strauss and Corbin 1990). In the same context, Remenyi et al (2002:288) mentioned “qualitative research is based on evidence that is not easily reduced to numbers. In some cases the evidence cannot be reduced to numbers and any attempt to do so would not be useful. In such cases statistical techniques are not sensible and hermeneutic approaches are preferable”. Qualitative research is therefore usually *inductive*. That is, general principles are derived from specific observations. It can produce new ways to think about problems, where as quantitative research usually means examining problems using theories and ideas that already exists. Therefore, the role of qualitative research has become recognised in management literature because it can be used to answer “how” questions (Steckler et al 1992). In this research, the interview process was designed to supplement and enhance the knowledge gained from questionnaires.

5.25 Interviews:

Collis and Hussey (2003:167) argue that interviews are associated with positivist and phenomenological methodologies. They viewed interviews as “a method of collecting data in which selected participants are asked questions in order to find out what they do, think or feel”. A positivistic approach suggests the usage of structured interviews as it deals with close-ended questions that represent the main focus of positivists. While the phenomenological approach is unstructured or semi-structured as they concentrate on open-ended questions and is used to explore questions in depth. May (1997:109) viewed interviews as a method of maintaining and generating conversations with interviewees on a specific topic or range of topics. He suggested that interviews yield rich insight into respondents’ experiences, opinions, aspirations, attitudes and feelings.

5.26 Semi-structured interviews:

The semi-structured interview is “a process in which the interviewer focuses on a limited number of questions on some limited number of points. It may range quite widely around a point, but this would be done only as a means of getting the required information on that particular point” (Smith 1972:119). Bryman (2004) argued that the term semi-structured interview covers a wide range of instances. This type of interview involves the interviewer preparing a series of questions that are in the general form of an interview schedule, but it is recommended that the interviewer should be able to vary the sequence of questions.

However, semi-structured interviews provide the interviewees with the opportunity to speak frankly about what they believe. Moreover, this method was considered to be an appropriate method to conduct exploratory discussions in order not only to reveal (what) and (how) but also to place more emphasis on (why) (Saunders et al 2000). Semi-structured interviews give the potential for discovering issues that have been considered before. Furthermore, it allows the questions covered to vary from one interview to another and on the flow of the conversation. As additional advantages of semi-structured interviews, May (1998) explained that the interviewer can seek clarifications during the course of the interview and could record qualitative information about the topic discussed and the questions specified.

5.27 Unstructured interviews:

Saunders et al (2000) viewed unstructured interviews as an informal method of data collection. However, it is used to explore in depth a general area of interest of the researcher. Unstructured interviews are so labelled because the interviewer has no planned sequence of questions to be asked of the respondent. "The main objective of the unstructured interview is to bring some preliminary issues to the surface so that the researcher can determine what variables are needed for further in-depth investigation" (Sekaran 2003:225).

It is argued that this type of interview enables interviewees to answer questions within their own frame of reference as interviewees are given the opportunity to talk freely about the topic under investigation in terms

of events, behaviour and beliefs, so this type of interaction is called non-directive (May1998 and Saunders et al 2000). From the researchers' point of view, it might be a disadvantage that respondents answer questions within their own frame of reference as it may provide unnecessary information, but at the same time researchers may need this information and ideas about a topic to explore their ideas. As a result this type of interview might equip them with needed information. Furthermore, it provides a greater understanding of the subjects' point of view. Moreover, the unstructured interview involves the researcher having an aim when conducting the interview, but the subjects interviewed are free to discuss the topic. As a result, it gives a room for flexibility (May 1998).

Denscombe (2003:167) argued that the main difference between unstructured and semi-structured interviews is the degree and way of control conducted by the researcher over response and length of answers provided by the respondent.

In addition to the above advantages of unstructured and semi-structured interviews, Easterby-Smith et al (1991) added that both methods are suitable to be used when issues are of a highly confidential or commercially sensitive nature or the interviewee may be reluctant to be truthful about this issue other than confidentially in a one-to-one position.

Although interviews have many advantages but there are several problems associated with conducting interviews. Collis and Hussey (2003) explained that the whole process is time consuming and expensive. Furthermore, the researcher should ensure that all interviews are conducted in the same way. This means that researchers should ask the same questions and pose them in the same way. Sekaran (2003) added that respondents might feel uneasy about the anonymity of their responses when they speak to the interviewers.

5.28 The sampling unit and interview procedures:

As mentioned earlier the semi-structured and unstructured interview formats were used as questions were designed to obtain open answers. Interviews were conducted in order to approach some issues that could not be captured properly or analysed through a qualitative approach. In general, this can be approached more easily by one-to-one discussion. Preparers and investors are represented in the sample of interviewees and are expected to provide information in private meetings. They are expected to explain issues related to the significance of information contained in the cash flow statements of Libyan companies based on the three factors (methods of cash flow statement preparation, purposes of preparing cash flow statement and the effect of cash flow information on investment decisions)

Thus, interviews were thought to be appropriate to offer guidance to extensions of research findings and interpretations of the quantitative

study, the researcher conducted these interviews to support the results of questionnaires irrespective of the problems of carrying out an interview in a country like Libya. Twenty individuals were initially targeted as potential interviewees; 8 investors and 12 preparers. Eight of them were interviewed, which represents a 40% response rate.

The interview research builds upon the general objectives of the research. Thus, testing the views of investors in a Libyan Investment Company and the views of preparers regarding the issue of methods of cash flow statement was the first general objective. Examining the views of investors and preparers, related to the purpose of preparing cash flow statements, was the second general objective of the research. The last general objective related to the effect of cash flow information on investment decisions.

A letter explaining the objectives of the study and ensuring the anonymity of responses was sent in advance to the respondents. The themes of the questions were given in advance as a reminder to the interviewee about the meeting and also to allow the interviewee time and scope to prepare for the meeting. Telephone calls one day before the meeting were also made to confirm the interviews.

At this stage, two groups of interviewees were approached. Eight interviews were conducted, 4 with investors and 4 with preparers, as these two groups have a direct influence on the issues related to the significance of information contained in the cash flow statements.

The interviews took approximately 40-75 minutes, including the introduction and explanations. At the commencement of each interview,

interviewees were asked if they would allow the interview to be recorded by tape. In order to ensure that each interviewee felt relaxed about the use of the tape recorder, it was explained to each of them that the tape recorder was only being used in order to enhance the accuracy of the recording of the interview. In 3 interviews, interviewees refused to allow recording of the interviews. It seemed that respondents would be anxious. However, the researcher took notes during the interviews, and immediately after the interview, the full text of the interview was written down in Arabic language using these notes. All the interviews were translated back to English language.

All questions were covered in the interviews but the sequence of questions was varied from one interview to another. Interviewees were invited to mention any other matters not covered by the interviewer's questions. All of the sensitive questions were left to the end of the interview in order to build trust and confidence between the researcher and interviewees, however, for consistency purposes, the interviews were organised again according to the sequence of questions that was set by the researcher.

5.29 Interview analysis:

Unlike quantitative data analysis, qualitative data analysis does not have a standardised approach to analyse the data (Hussey and Hussey, 2003; Punch, 2005; Saunders et al., 2007). One approach to analyse qualitative

data is to quantify it, in other words, turn the qualitative data into numerical data. That can be done informally, when the aim is to count the frequency of certain events or of particular reasons that have been given by interviewees (Hussey and Hussey, 2003; Saunders et al., 2007). Punch (2005) states that quantifying qualitative data provides the researcher with the capacity to display a large amount of data and it is a very useful supplement to the most important means of analysing qualitative data. For this reason, decision was made in this research to quantify qualitative data obtained from interviews as much as possible in order to present them better.

The interview process was designed to enhance and supplement the knowledge gained from the questionnaire. To analyse the interviews, the researcher summarised the content of interviews according to the interviewees' answers; thereafter, key themes emerged.

The collected data from interviewees is analysed by using key information. These procedures were continued in seeking the themes and patterns in the data. Concepts underlined in the analysis were analysed according to the research framework. Also new themes or concepts that were highlighted in the interviews were handled in a flexible way and considered in relation to the research framework.

This involved grouping together answers from the different interview transcripts by topic per the interview guide and allowing the guide to act as a descriptive framework for analysis. Once answers had been grouped by topic, they were analysed using key information.

By using this method, it was possible to compare the answers derived from interviews with those derived from questionnaires. Certain paragraphs from the interviews were used for that purpose. Conclusions drawn from this method were included in the discussion of quantitative findings in Chapters Seven and Eight.

For the analysis and interpretation of the data, however, this step mainly depends on the orientation of the researcher and the objectives of the study that focused on methods of cash flow statement preparation, purpose of preparing cash flow statements and effects of cash flow information.

Finally, to highlight the contents of the interviews, the grouped and summarised answers were compared and contrasted, showing the degree of agreement/disagreement between the interviewees. Their quotations have been used in order to bring out their thoughts and ideas about the discussed topics.

5.30 Questionnaires vs. interviews:

For the research to be described in this thesis, it is necessary to consider whether interview or questionnaire should be used to evaluate the significance of information contained in the cash flow statements of Libyan companies. Interviews are considered as an effective means of

collecting large amounts of data but there are several difficulties in conducting interviews in the present research. As in Western countries, they would be more time consuming and therefore costly in terms of resources, furthermore, interviews are intrusive which may reduce the participants willingness to participate, in addition to the difficulties of translating the interviews. Furthermore there are some problems that arise specifically with Libyan interviewees.

1- The researcher noticed that most of the interviewees have difficulty in describing their problems in general, more specifically, when they are asked about something related to the effect of cash flow information on investment decisions especially if they are meeting the interviewer for the first time.

2- Most of the interviewees, especially the key staff, have the impression that interviews may reflect information regarding their institutions and that might threaten their positions in companies (insecurity).

For the above reasons, interviews about sensitive issues are less practical and less likely to provide valid information in Libya than in Western studies,

5.31 Triangulation:

The two theoretical stances -positivistic paradigm and phenomenological paradigm-, that were discussed earlier in this chapter led the researcher to believe that business and management researches are often a mixture between the two methods. Therefore, combining the methods has been advocated as leading to a type of validity that has been called triangulation (Bryman 2004). However, Hussey and Hussey (1997) encouraged the use of both quantitative and qualitative methods for collecting the data and considered it as an advantage for the research. Considering the advantages of triangulation, Webb et al (1966) considered triangulation as an approach to the development of measures of concepts whereby using more than one method of developing measures will result in more confidence in the result.

While Saunders et al (2000:98) mentioned that triangulation would give confidence that researchers are addressing the most important issues.

5.32 Summary:

This chapter provides the methodology and methods adopted to attain the objectives of the study. It described the research philosophies, namely; positivistic and phenomenological paradigms. As the study used a combination of quantitative and qualitative methods (i.e. questionnaires and interviews), a comprehensive description for the process of questionnaire and interview procedures, was explained. The pilot test for the questionnaire survey was introduced. Generally, the idea of using both interviews and questionnaires and the problems facing the researcher in conducting the interviews, was reviewed and the purpose of combining the two methods was justified. In the following chapter, a statistical description of the data gathered by the questionnaire survey and presentation for interview results, in addition to testing the research hypotheses and exploring the interview themes.

CHAPTER SIX

QUANTITATIVE ANALYSIS

6.1 Introduction:

This chapter reports on the findings of the survey conducted in Libya during the period November 2007 to January 2008. The chapter describes and summarises the questionnaire data that was collected from officials in the Libyan Investment Companies. The type of statistical test used to test the hypotheses was Analysis of Variance (ANOVA).

The rest of this chapter is organised as follows: the first stage is to analyse part one of the questionnaire which relates to examining the methods of Cash Flow Statement preparation companies use. While, the second stage is to analyse part two of the questionnaire which relates to examining the purpose of preparing Cash Flow Statements and the third stage is to analyse part three of the questionnaire which relates to examining the effect of cash flow information on investment decisions in investment firms.

The total sample in the study was 215, based on the number of returned questionnaires. The 180 individuals were drawn from the target groups which are covered in this study by type of company (see appendix 1). Before starting to analyse the contents of the questionnaire, the total sample can be presented in terms of gender, age, education, experience and position. None of the above variables were the subject of specific hypotheses. The justification for this is to have a general idea of the

samples socio-economic characteristics, as these may have a bearing on sample representativeness.

6.2 Reliability analysis:

The reliability analysis is the first step in the quality control of conducting research relying on primary sources of data collection such as a questionnaire. It allows studying the properties of measurement scales and the items that make them up. The reliability analysis procedures calculate a number of commonly used measures of scale reliability and also provide information about the relationships between individual items in the scale. Interclass correlation coefficients can be used to compute inter rate reliability estimates. Hence, by using reliability analysis, the extent to which the items in the questionnaire are related to each other can be determined, so we can get an overall index of the reliability or the internal consistency of the scale as a whole. Using the reliability analysis can identify problem items that should be excluded from the scale. In this analysis Cronbach's Alpha was used, because of its relevance to a questionnaire based on the Likert five-point scale, and measures the internal consistency of the questionnaire, based on the average inter-item correlation of the items. By using a Cronbach's alpha test the reliability was tested for all items in the scales. Cronbach's alpha for the pilot study was .78 which was over .70. In the final survey the cronbach's alpha was .78 which is still acceptable as well because it is above .70

Table 6.1 Cronbach's Alpha test

	Number of Items	Number of Cases	Cronbach's Alpha
The Pilot Study	25	43	0.784
The Final Survey	25	180	0.780

6.3 The analysis of the part one of the questionnaire.

Statement (1-1): the Cash Flow Statement is a valid measure of cash generating ability

Table: (6-2) descriptive statistic of statement 1-1

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	25	13	14	9	15
Neutral	25	26	22	20	23
Agree	33	40	31	51	39
Strongly agree	17	21	33	20	23
Mean	3.42	3.67	3.83	3.82	3.69
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

It is noticed that from table (1), 62% of the entire sample agreed that the Cash Flow Statement is a valid measure of cash generating ability. This was mentioned by the great majority of respondents belonging to all groups but a slightly lower proportion has been noticed in the service company 50%, commercial company 31%.whereas out of the total sample 23% strongly agreed with the statement. Noticeably, 23% of the total sample gave their opinion as “neutral”. The mean for the service company is 3.42 which is 0.27 points below the total sample mean. A higher mean was observed among the agricultural company and the commercial company with 3.82 and 3.83 respectively. The mean for the manufacturing company is 3.67 which is 0.02 points below the total sample mean.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement is a valid measure of cash generating ability as the p-value =.205 which is greater than 0.05,(see appendix 6)

Statement (1-2): Cash Flow Statement is more meaningful than net income from operations in evaluating the economic performance of a firm.

Table :(6-3) descriptive statistic of statement 1-2

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	15	4	7	2	7
Neutral	37	32	34	35	34
Agree	40	47	45	56	47
Strongly agree	8	17	14	7	12
Mean	3.40	3.77	3.66	3.66	3.63
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

In question (1-2) the participants were asked to address their opinions about whether the Cash Flow Statement is more meaningful than net income from operations in evaluating the economic performance of a firm. 59% of the respondents agreed with the statement. This was mentioned particularly by the Manufacturing Company 64% and agricultural Company 63%, followed by the commercial company 59% and Service Company 48%.while 34% out of the total sample, their opinion was neutral. They are interested in the relative value of the income statement and Cash Flow Statement. The total sample mean score obtained was 3.63. Higher mean scores were observed among

others such as the Manufacturing Company with 3.77. On the other hand a lower mean was recorded among Service Company which was 3.40.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement is more meaningful than net income from operations in evaluating the economic performance of a firm as the p-value =.137 which is greater than 0.05, (see appendix 6)

Statement (1-3): Cash Flow Statement should be shown in the annual report.

Table :(6-4) descriptive statistic of statement 1-3

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	-	-	9	-	2
Neutral	2	9	2	9	6
Agree	43	34	48	58	45
Strongly agree	55	57	41	33	47
Mean	4.52	4.47	4.19	4.24	4.36
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

The respondents were asked in question (3-1) to state whether the cash flow statement should be shown in the annual report. Noticeably 92% of the total sample agreed. They believe that the Cash Flow Statement should be shown in the annual report. Hertenstein and Macinnon (1997) said that the Cash Flow Statement is one of the most useful financial statements because it provides considerable information about what is really happening in a business beyond that contained in either of the other two statements. The mean response for the whole sample was 4.36.

Higher mean scores were observed among the Service Company and Manufacturing Company which were 4.52 and 4.47 respectively.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions the Cash Flow Statement should be shown in the annual report as the p-value =.062 which is greater than 0.05,(see appendix 6)

Statement (1-4): Cash Flow Statement should be included in the annual report on a comparative basis for the same number of years as the income statement.

Table :(6-5) descriptive statistic of statement 1-4

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	5	9	5	4	6
Neutral	15	21	29	4	17
Agree	50	45	40	76	53
Strongly agree	30	25	26	16	24
Mean	4.05	3.84	3.88	4.02	3.94
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

In question (1-4) the respondents were asked to state whether the Cash Flow Statement should be included in the annual report on a comparative basis for the same number of years as the income statement.77% of the entire sample agreed with the statement, in contrast just 6% of the total sample disagree with the statement noticeably, 17% of the total sample gave their opinion as “neutral” and most of them were observed among the commercial company and manufacturer company. A higher mean was noticed among Service Company 4.05, whereas lower means were observed among the Manufacturer Company and commercial company

which were 0.10 and 0.06 points below the total sample mean respectively.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement should be included in the annual report on a comparative basis for the same number of years as the income statement as the p-value =.558 which is greater than 0.05,(see appendix 6)

Statement (1-5): the Cash Flow Statement should be prepared according to International Accounting Standard 7.

Table :(6-6) descriptive statistic of statement 1-5

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	7	2	2	2	3
Neutral	7	11	15	67	10
Agree	43	57	64	51	54
Strongly agree	43	30	19	40	33
Mean	4.20	4.15	4.00	4.28	4.16
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question (1-5) was focused on the Cash Flow Statement should be prepared according to International Accounting Standard 7. Out of the total sample, 87% agreed with the statement. This was mentioned particularly by the agricultural company 91%, Manufacturer Company 87% , Service Company 86% and commercial Company 83%. However, 10% of the total sample their opinion was neutral. They demonstrated acceptance of IAS7. The mean score for the total sample was 4.16, but a higher mean was observed among the agricultural Company of 4.28.

The one way ANOVA test shows that there are no significant differences between the sample opinions the Cash Flow Statement should be prepared according to international standard 7, as the p-value =.321 which is greater than 0.05,(see appendix 6)

Statement (1-6): the Cash Flow Statement should be classified as operating, investing, and financing.

Table :(6-7) descriptive statistic of statement 1-6

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	-	-	-	-	-
Neutral	20	9	12	9	12
Agree	40	55	76	64	59
Strongly agree	40	36	12	27	29
Mean	4.20	4.26	4.00	4.17	4.16
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question (1-6) was focused on the Cash Flow Statement being classified as operating, investing, and financing. Out of the total sample, 88% agreed with the statement. This was mentioned particularly by the agricultural company 91%, Manufacturer Company 91%, commercial Company 88% and Service Company 88%. However, 12% of the total sample their opinion was neutral. It demonstrated understanding of IAS7.The mean score for the total sample was 4.16, but a higher mean was observed among Manufacturer Company of 4.26.

The one way ANOVA test shows that there are no significant differences between the sample opinions that the cash flow statement should be

classified as operating, investing, and financing, as the p-value =.216 which is greater than 0.05,(see appendix 6)

Statement (1-7): the Cash Flow Statement is to provide relevant information about cash receipts and cash payments.

Table :(6-8) descriptive statistic of statement 1-7

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	5	2	2	2	3
Neutral	7	17	5	13	11
Agree	75	43	55	58	57
Strongly agree	13	38	38	27	29
Mean	3.95	4.16	4.28	4.08	4.12
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Following, the previous question, question (1-7) was to get the respondents' opinion about the importance of the Cash Flow Statement is to provide relevant information about cash receipts and cash payments. Consistency in the respondents' opinion was observed. 93% of the commercial company and 88% of the service company both agreed followed by agricultural Company 85% and Manufacturer Company 81%. Noticeably, 11% of the total sample gave their opinion as neutral across all groups. It is similar to the direct method. Higher means scores were noticed among commercial Company and Manufacturer Company which were 4.28 and 4.16, respectively. On the other hand lower means scores were observed among the Service Company and agricultural company which were respectively 0.17 and 0.04points below the total sample mean which was 4.12.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement is to provide relevant information about cash receipts and cash payments as the p-value =.178 which is greater than 0.05,(see appendix 6)

Statement (1-8): the Cash Flow Statement provides information about the historical change in cash and cash equivalents.

Table :(6-9) descriptive statistic of statement 1-8

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	22	17	12	18	17
Neutral	15	23	21	33	23
Agree	50	49	50	42	48
Strongly agree	13	11	17	7	12
Mean	3.52	3.54	3.71	3.37	3.53
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question (1-8) was focused on the Cash Flow Statement provides information about the historical change in cash and cash equivalents. Out of the total sample, 60% agreed with the statement. This was mentioned particularly by the commercial company 67%, service Company63% and Manufacturer Company 60%. However, 23% of the total sample their opinion was neutral. Higher means were recorded among the samples of the commercial Company 3.71 and Manufacturing Company 3.54; whereas lower scores were recorded among the samples of the agricultural company and Service Company which are 0.29 and 0.19 below the total sample mean were 3.74.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions the Cash Flow Statement

provides information about the historical change in cash and cash equivalents as the p-value =.398 which is greater than 0.05,(see appendix 6)

Statement (1-9): the Cash Flow Statement assists in the internal control procedure. **Table :(6-10) descriptive statistic of statement 1-9**

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	11	2
Disagree	33	13	19	25	22
Neutral	30	23	43	22	29
Agree	32	43	36	31	36
Strongly agree	5	21	2	11	11
Mean	3.10	3.71	3.21	3.06	3.30
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question (1-9) regarding the Cash Flow Statement assisting in the internal control procedure.47% of the total sample agreed. Noticeably, 29% of the total sample gave their opinion as neutral in all groups. However, 24% of the total sample said the Cash Flow Statement does not assist in the internal control procedure. Higher means were recorded among the samples of the manufacturer company 3.71 and the commercial company 3.21, whereas lower scores were recorded among the samples of the Service Company and agricultural company which are 0.20and 0.24below the total sample mean which was 3.30.

Statistically, the one way ANOVA test shows that there is one significant difference between the types of companies when factored by question (1-10) regarding the Cash Flow Statement assisting in internal control procedure as the p-value is less than 0.05.a post hoc test using Tukey's

HSD test table showed that, agricultural company, service company and commercial company (means of 3.06, 3.10 and 3.21 respectively) are statistically different from manufacturer company (mean 3.71). , (see appendix 7)

6.4 The analysis of the part two of the questionnaire.

This stage involves the analysis of the part two of the questionnaire. This relates to examining the purpose of preparing Cash Flow Statements (statement 1 to 10).

Statement (2-1): the Cash Flow Statement provides information about liquidity

Table :(6-11) descriptive statistic of statement 2-1

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	5	-	7	-	3
Neutral	17	13	10	11	13
Agree	45	68	52	56	56
Strongly agree	33	19	31	33	28
Mean	4.05	4.05	4.07	4.22	4.10
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

In this question the respondents were asked to give their opinion about whether the Cash Flow Statement provides information about liquidity. It was noticed that 84% of the sample rated this information as “important”. They believe that the Cash Flow Statement provides information about liquidity. The mean score obtained was 4.10. Higher mean scores were observed among other samples as agricultural Company with 4.22. On the other hand a lower mean was recorded among Manufacturer Company and Service Company which was 4.05.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement provides information about liquidity as the p-value =.627 which is greater than 0.05,(see appendix 6)

Statement (2-2): the Cash Flow Statement provides information about the quality of cash flow management

Table :(6-12) descriptive statistic of statement 2-2

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	2	-	10	-	3
Disagree	33	19	26	22	24
Neutral	22	28	19	42	28
Agree	30	43	38	29	36
Strongly agree	13	10	7	7	9
Mean	3.17	3.43	3.07	3.20	3.23
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question (2-2) was focused on the Cash Flow Statement providing information about the quality of cash flow management. Out of the total sample, 45% mentioned that the Cash Flow Statement is important to provide information about the quality of management. This was mentioned particularly by the manufacturer company 53% and commercial Company 45%, followed by Service Company 43% and agricultural company 36%.They believe that the Cash Flow Statement provides information about the quality of cash flow management. On the other hand, 24% of the respondents said it is not important and 12% of respondents gave their opinions as neutral. The mean score for the total sample was 3.23, but a higher mean was observed among Manufacturing Companies of 3.43.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement provides information about the quality of cash flow management as the p-value =.341 which is greater than 0.05,(see appendix 6)

Statement (2-3): the Cash Flow Statement helps users to understand financial results in a better way.

Table :(6-13) descriptive statistic of statement 2-3

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	27	9	19	4	14
Neutral	23	25	31	38	29
Agree	45	49	40	53	47
Strongly agree	5	17	10	5	10
Mean	3.27	3.73	3.40	3.57	3.51
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

In question (2-3) the participants were asked to address their opinions about the Cash Flow Statement helping users to understand financial results in a better way. 57% of the respondents agreed with the statement. This was mentioned particularly by the Manufacturing Company 66% and agricultural company 58%, followed by the Service Company and commercial company 50% while the proportion of negative responses was 14% out of the total sample. Their opinion was that they don't agree with the statement. The mean score obtained was 3.51. Higher mean scores were observed among other sample as Manufacturing Company with 3.73.on the other hand a lower mean was recorded among service Company which was 3.27.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions the Cash Flow Statement helps users to understand financial results in a better way as the p-value =.053 which is greater than 0.05,(see appendix 6)

Statement (2-4): the Cash Flow Statement is used for internal purposes

Table :(6-14) descriptive statistic of statement 2-4

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	2	2	2	-	2
Disagree	13	19	17	16	16
Neutral	35	24	29	31	29
Agree	40	49	38	49	45
Strongly agree	10	6	14	4	8
Mean	3.42	3.37	3.45	3.42	3.41
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question No (2-4) regarding the Cash Flow Statement is used for internal purposes. Out of the total sample 53% agreed that the Cash Flow Statement is used for internal purposes. On the other hand, 18% of the respondents said “disagree”. While 29% of respondents gave opinions as neutral. By referring to the above table higher means were recorded among the samples of commercial company and Service Company sample with 3.45 and 3.42 respectively.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement is used for internal purposes as the p-value =.983 which is greater than 0.05,(see appendix 6)

Statement (2-5): Cash Flow Statement is used for external purposes by bankers, creditors and analysts.

Table :(6-15) descriptive statistic of statement 2-5

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	7	-	2
Disagree	22	13	17	11	15
Neutral	40	38	24	49	38
Agree	33	40	43	24	35
Strongly agree	5	9	9	16	10
Mean	3.20	3.45	3.30	3.44	3.36
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question (2-5) was focused on is the Cash Flow Statement used for external purposes by bankers, creditors and analysts. Out of the total sample, 45% stated that the Cash Flow Statement is used for external purposes. This was mentioned particularly by the commercial company 52%, the manufacturer Company 49% and agricultural company 40%. They believe that the Cash Flow Statement is used for external purposes. On the other hand, 17% of the respondents said “disagree”. This was noticed by all groups and 38% of respondents gave opinions as neutral. The mean score for the total sample was 3.36, but a higher mean was observed among manufacturer company of 3.45 Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement is used for external purposes as the p-value =.525 which is greater than 0.05, (see appendix 6)

Statement (2-6): the Cash Flow Statement is useful in evaluating the financial position of the company and comparing performance between companies.

Table :(6-16) descriptive statistic of statement 2-6

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	5	2	5	-	3
Disagree	15	6	12	4	9
Neutral	7	9	31	27	18
Agree	55	62	43	42	51
Strongly agree	18	21	9	27	19
Mean	3.65	3.94	3.40	3.91	3.74
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question No (2-6) regarding the Cash Flow Statement is useful in evaluating the financial position of the company and comparing performance between companies. Out of the total sample 70% agreed that the Cash Flow Statement is useful in evaluating the financial position of the company and comparing performance between companies. A higher proportion was recorded for the manufacturing company with 83% and a service company with 73%, followed by the agricultural company 69% and the commercial company with 52%. Out of the total sample 11% said “disagree” with the statement. By referring to the above table higher means were recorded among the samples of Manufacturer Company, agricultural Company, and Service company sample with 3.94, 3.91, and 3.65 respectively.

Statistically, the one way ANOVA test shows that there is one significant difference between the types of companies groups when factored by question (2-6) regarding whether the Cash Flow Statement is useful in

evaluating the financial position of the company and comparing performance between companies as the p-value is less than 0.05.a post hoc test

using Tukey's HSD test table showed that, agricultural company and Manufacturer Company (means of 3.91 and 3.94 respectively) are statistically different from commercial company (mean 3.40). , (see appendix 7)

Statement (2-7): the Cash Flow Statement provides information not included in the income statement and the balance sheet.

Table :(6-17) descriptive statistic of statement 2-7

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	5	9	5	7	7
Neutral	27	25	28	29	27
Agree	43	40	43	53	44
Strongly agree	25	26	24	11	22
Mean	3.87	3.83	3.85	3.68	3.81
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

It is noticed that from table (2-7), 66% Of entire sample agreed that the Cash Flow Statement provides information not included in the income statement and the balance sheet. This was mentioned by the great majority of respondents belonging to all groups. Noticeably, 27% of the total sample gave their opinion as “neutral”. The mean for the agricultural company is 3.68 which is 0.13 points below the total sample mean which was 3.81. A higher mean was observed among the commercial company and the service company with 3.85 and 3.87 respectively.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement provides information not included in the income statement and the balance sheet as the p-value =.731 which is greater than 0.05,(see appendix 6)

Statement (2-8): the Cash Flow Statement is useful for discovering any fraud in the income statement

Table :(6-18) descriptive statistic of statement 2-8

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	5	2	7	-	3
Disagree	5	10	7	20	11
Neutral	20	34	12	22	23
Agree	52	43	55	49	49
Strongly agree	18	11	19	9	14
Mean	3.72	3.52	3.71	3.46	3.60
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

The above Table shows that out of the entire sample, 63% agreed that the Cash Flow Statement is useful for discovering any fraud in the net income statement. This was mentioned by all groups. 14%of the sample said “strongly agree” with the statement. Noticeably, 23% of the total sample gave opinions that were neutral. But a slightly lower proportion disagreed with the statement was 13% of respondents. A higher mean was recorded for Service Company which was 3.72 while lower means were recorded for agricultural company 3.46 and Manufacturing Company 3.52 which were respectively 0.14 and 0.08points below the total sample mean which was 3.60.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions the Cash Flow Statement is useful for discovering any fraud in the net income statement as the p-value =.496 which is greater than 0.05,(see appendix 6)

Statement (2-9): the Cash Flow Statement provides information about future cash flows

Table :(6-19) descriptive statistic of statement 2-9

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	10	2	14	2	7
Disagree	22	21	17	31	23
Neutral	30	15	31	22	24
Agree	33	38	24	38	33
Strongly agree	5	24	14	7	13
Mean	3.00	3.62	3.07	3.15	3.23
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question No (2-9) regarding the Cash Flow Statement provides information about future cash flows. Out of the total sample 46% said that the Cash Flow Statement is important to provide information about future cash flows. A higher proportion was recorded for the Manufacturing Company with 62% and agricultural Company with 45%. On the other hand, 30% of the respondents said “Disagree” this was mentioned by the agricultural company with 33% and the service company with 32%.The assumption is that the past is a reliable predictor of future cash flows. The mean score obtained was 3.23. Higher mean scores were observed among other sample as Manufacturer Company with 3.62.on the other hand a lower mean was recorded among service Company which was 3.00.

Statistically, the one way ANOVA test shows that there is one significant difference between the types of companies groups when factored by question (2-9) regarding the Cash Flow Statement providing information about future cash flows as the p-value is less than 0.05. A post hoc test using Tukey's HSD test table showed that, service company and commercial company (means of 3.00 and 3.07 respectively) are statistically different from manufacturer company (mean 3.62). , (see appendix 7)

Statement (2-10): That Cash Flow Statement provides more disclosure than income statement and balance sheet.

Table :(6-20) descriptive statistic of statement 2-10

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	5	2	2	-	2
Disagree	7	7	10	4	7
Neutral	22	11	21	20	18
Agree	48	55	43	65	53
Strongly agree	18	25	24	11	20
Mean	3.65	3.92	3.76	3.82	3.80
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question No (2-10) covers whether the Cash Flow Statement provides more disclosure. Out of the total sample 73% agree with the Cash Flow Statement provides more disclosure. A higher proportion was recorded for and the manufacturer Company with 80% and the agricultural Company with 76%, followed by the Commercial Company with 67% and service Company with 66%. But 9% disagree. This was mentioned

by all groups. The mean score obtained was 3.80. Higher mean scores were observed among other sample as Manufacturing Company with 3.92. on the other hand a lower mean was recorded among service Company which was 3.65.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that Cash Flow Statement provides more disclosure as the p-value =.541 which is greater than 0.05, (see appendix 6)

6.5 The analysis of the part three of the questionnaire.

This stage involves the analysis of the part three of the questionnaire.

This relates to examining the effect of cash flow information on investment decisions in investment firms (statement 1 to 5)

Statement (3-1): the Cash Flow Statement meets the needs of decision makers

Table :(6-21) descriptive statistic of statement 3-1

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	4	2	2	2
Disagree	12	6	21	2	10
Neutral	23	17	14	25	20
Agree	58	45	41	42	46
Strongly agree	7	28	22	29	22
Mean	3.60	3.88	3.57	3.93	3.76
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

In question (3-1) the participants were asked to state their opinions about whether the Cash Flow Statement meets the needs of decision makers. The above table shows that out of the total sample 68% said “agree”. This was mentioned by the manufacturer company with 73% and the agricultural company with 71% followed by the service Company with 65% and Commercial Company with 63%. On the other hand, 12% of the respondents said “disagree”. And 20% of respondents gave their opinions as neutral; this was noticed by all groups. The mean score obtained was 3.76. Higher mean scores were observed among other sample as agricultural Company with 3.93. on the other hand a lower mean was recorded among commercial Company which was 3.57.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement meets the needs of decision makers as the p-value =.180 which is greater than 0.05,(see appendix 6)

Statement (3-2): the Cash Flow Statement assists internal financial management in assessing the need for borrowing.

Table :(6-22) descriptive statistic of statement 3-2

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	7	11	7	4	8
Neutral	8	15	29	7	14
Agree	68	49	40	73	57
Strongly agree	17	25	24	16	21
Mean	3.95	3.86	3.80	4.00	3.90
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Following, the previous question, question (3-2) was to get the respondents’ opinion about the importance of the Cash Flow Statement in assisting financial management in assessing the need for borrowing. This was observed by 89% of the agricultural company and the service company 85% both said “agree”, followed by Manufacturer Company 74%. Noticeably, 14% of the total sample who gave their opinion as neutral belong all groups. Higher scores means were noticed among agricultural company and service Company which were 4.00 and 3.95, respectively. On the other hand lower scores means were observed among the commercial company and manufacturer company which were respectively 0.10 and 0.04points below the total sample mean which was 3.90.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement assists financial management in assessing the need for borrowing as the p-value =.700 which is greater than 0.05,(see appendix 6)

Statement (3-3): Cash Flow Statements provide sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability

Table :(6-23) descriptive statistic of statement 3-3

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	7	-	1
Disagree	10	19	19	16	16
Neutral	35	11	33	31	27
Agree	48	53	29	40	43
Strongly agree	7	17	12	13	13
Mean	3.52	3.67	3.19	3.51	3.48
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

It is noticed that from table (3-3), 56% of the entire sample mentioned that the Cash Flow Statements provides sufficient disclosure to the company's management for evaluating its operations and trends of liquidity. This was mentioned by the great majority of respondents belonging to all groups but a slightly lower proportion has been noticed in the commercial company 41%.On the other hand, 16% of the respondents said “Disagree” and this was mentioned by the commercial company with 19% and the manufacturer company with 19% Noticeably, 27% of the total sample gave their opinion as neutral belong to all groups. Higher means were observed among Manufacturing Company 3.67, service Company 3.52 and agricultural company 3.51.

Whereas lower mean was noticed among the commercial company 3.19 which was 0.29 points below the total sample mean which was 3.48.

The one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statements provide sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability as the p-value =.104 which is greater than 0.05,(see appendix 6)

Statement (3-4): the Cash Flow Statement assists financial management in assessing the need for expansion in investment activity and funding

Table :(6-24) descriptive statistic of statement 3-4

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	-	-	-	-	-
Disagree	7	10	10	11	9
Neutral	15	17	29	20	20
Agree	58	45	35	60	50
Strongly agree	20	28	26	9	21
Mean	3.90	3.92	3.78	3.66	3.82
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question (3-4) was focused on the Cash Flow Statement assisting financial management in assessing the need for expansion in investment activity and funding. Out of the total sample, 71% mentioned that the Cash Flow Statement is important in assisting financial management to assess the need for expansion in investment activity and funding. This was mentioned particularly by the Service Company 78% and Manufacturer Company 73%, followed by agricultural Company 69% and commercial company 61%. Whereas out of the total sample 9% said

disagree, this was mentioned by all samples. And 20% of respondents gave their opinions as neutral. The mean score obtained was 3.82. Higher mean scores were observed among other sample as Manufacturer Company with 3.92. On the other hand a lower mean was recorded among agricultural Company which was 3.66.

Statistically, the one way ANOVA test shows that there is no significant difference between the sample opinions that the Cash Flow Statement assists financial management in assessing the need for expansion in investment activity and funding as the p-value =.470 which is greater than 0.05, (see appendix 6)

Statement (3-5): the Cash Flow Statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period

Table :(6-25) descriptive statistic of statement 3-5

	S.C	M.C	C.C	A.C	T.S
	%	%	%	%	%
Strongly disagree	5	-	-	2	2
Disagree	20	15	19	5	14
Neutral	35	19	31	33	29
Agree	35	47	43	58	46
Strongly agree	5	19	7	2	9
Mean	3.15	3.69	3.38	3.53	3.46
Missing	0	0	0	0	0
Total sample	40	53	42	45	180
S.C=Service Company; M.C= Manufacturing Company, C.C=Commercial Company, A.C=Agricultural Company, T.S=Total sample					

Question (3-5) covers whether the Cash Flow Statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period. 55% of the total sample said it is important. This was mentioned by all groups with the manufacturer company with 66%, the agricultural company 60%, the

commercial company 50% and the service company 40%. On the other hand, 16% of the respondents said "Disagree". This was mentioned by the service company with 25% and the commercial company with 19%. Noticeably, 29% of the total sample gave their opinion as neutral belong to all groups. Higher means were recorded among the Manufacturer Company 3.69, whereas lower scores were recorded among the samples of the service Company and commercial company which are 0.31 and 0.08 below the total sample mean which was 3.46.

Statistically, the one way ANOVA test shows that there is one significant difference between the types of companies when factored by question (3-5) regarding the Cash Flow Statement assessing the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period as the p-value is less than 0.05. a post hoc test using Tukey's HSD test table showed that, service company (means of 3.15) is statistically different from manufacturer company (mean 3.69). , (see appendix 7)

6.6 Analysis for testing the first hypothesis.

There is a limited amount of research in the area of developing countries. This study has empirically established that the perceptions of officials in the Libyan investment companies were different. The differences between officials' perceptions were examined by analysing how the answers to 9 questions requesting them to rate their opinions in five scales to address their opinions regarding the methods of Cash Flow Statement preparation . In order to test the first hypothesis the one way ANOVA was used, as shown in table below. Table (6-26) results of one way ANOVA test when data factored by type of company.

Table :(6-26) results of one way ANOVA testing the first hypothesis.

The statement		Significance test	Hypothesis supported
1-1	Cash flow statement is a valid measure of cash generating ability	.205	H ₀
1-2	Cash flow statements is a more meaningful statement than net income from operations in evaluating the economic performance of a firm	.137	H ₀
1-3	Cash flow statements should be shown in the annual report	.062	H ₀
1-4	Cash flow statement should be included in the annual report on a comparative basis for the same number of years as the income statement	.558	H ₀
1-5	Cash flow statements should be prepared according to International Standard 7	.321	H ₀
1-6	Cash flow statement should be classified as operating, investing, financing	.216	H ₀
1-7	Cash flow statement is to provide relevant information about cash receipts and cash payments	.178	H ₀
1-8	Cash flow statement provides information about the historical change in cash and cash equivalents	.398	H ₀
1-9	Cash flow statement assists in internal control procedures	.004	H ₁

Table 6.26 shows the results of one way ANOVA test. Based on these findings, it can be suggested that there are generally no significant differences between official's opinions regarding the methods of Cash Flow Statement preparation. Therefore, the following null hypothesis was accepted:-

H_0 : there is no significant difference between the sample means in official's opinions regarding the methods of Cash Flow Statement preparation when factored by type of company.

6.7 Analysis for testing the second hypothesis.

The differences between officials perceptions were examined by analysing how the answers to 10 questions requesting them to rate their opinions in five scales addressing their opinions regarding the purpose of preparing cash flow statement. The level of P-Value was utilised indicating to reject or accept hypothesis, when level of P-Value below 0.05. The null hypothesis should be rejected whereas when level of P-Value greater 0.05 the alternative hypothesis should be accepted.

The table (6-27) results of one way ANOVA test

Table :(6-27) results of one way ANOVA testing the second hypothesis.

The statement		Significance test	Hypothesis supported
2-1	Cash flow statement provides information about liquidity	.627	H ₀
2-2	Cash flow statement provides information about the quality of cash flow management	.341	H ₀
2-3	Cash flow statement helps users to understand financial results in a better way	.053	H ₀
2-4	Cash flow statement is used for internal purposes	.983	H ₀
2-5	Cash flow statement is used for external purposes	.525	H ₀
2-6	Cash flow statement is useful in evaluating the financial position of the company and comparing performance between companies	.024	H ₁
2-7	Cash flow statement provides information not included in the income statement and the balance sheet	.731	H ₀
2-8	Cash flow statement is useful for discovering any fraud in the income statement	.496	H ₀
2-9	The cash flow statement provides information about future cash flows	.030	H ₁
2-10	Cash flow statement provides more disclosure	.541	H ₀

As we can see in table 6.27 above. Based on above findings, it can be suggested that there are no significant differences between official's opinions regarding the purpose of preparing Cash Flow Statement ,and the following null hypothesis was accepted:-

H₀: there is no significant difference between the sample means in official's opinions regarding the purpose of preparing Cash Flow Statement when factored by type of company.

6.8 Analysis for testing the third hypothesis.

The differences between officials' perceptions were examined by analysing how the answers to 5 questions requesting them to rate their opinions on five points scale addressing their opinions regarding the effect of cash flow information on investment decisions in investment firms. The level of P-Value was utilised indicating to reject or accept hypothesis, when level of P-Value below 0.05. The null hypothesis should be rejected whereas when level of P-Value greater 0.05 the alternative hypothesis should be accepted. The table below shows the one way ANOVA test.

Table :(6-28) results of one way ANOVA testing the third hypothesis.

The statement		Significance test	Hypothesis supported
3-1	Cash flow statement meets the needs of decision makers	.180	H ₀
3-2	Cash flow statement assists financial management in assessing the need for borrowing	.700	H ₀
3-3	Cash flow statement provides sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability	.104	H ₀
3-4	Cash flow statement assists financial management in assessing the need for expansion in investment activity and funding	.470	H ₀
3-5	Cash flow statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period	.028	H ₁

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

H_0 : there is no significant difference between the sample means in official's opinions regarding the effect of cash flow information on investment decisions in investment firms when factored by type of company.

It was conspicuous from the analysis above, significant differences opinions among groups and within each group itself was experienced.

For the first and second and third hypotheses differences will be explored at the following stage by using the Tukey's HSD test.

6.9 Tukey's HSD (Honestly Significant Differences) Test:

As mentioned earlier, the one way ANOVA test does not provide which groups differ. Therefore, additional analysis is needed to identify differences between groups (Pallant, 2001, p.180). Therefore, a Post-hoc test is needed using a different hypothesis using an ANOVA test in order to determine which groups differ from each other.

This test is used for testing the significance of unplanned pairwise comparisons. When you do multiple significance tests, the chance of finding a "significant" difference just by chance increases. Tukey's HSD test is one of several methods of ensuring that the chance of finding a significant difference in any comparison (under a null model) is maintained at the alpha level of the test.

Therefore, the following stage aims to present the results of the Tukey's HSD test for the whole sample to determine the differences among groups. The Tukey's HSD test revealed that there are differences between participants in some questions are found as we can see in tables (6-29).

The table (6-29) below summarises the results of Tukey's HSD test when the sample is factored by the type of company where differences were observed ($p < 0.05$).

Table :(6-29) results of Tukey's HSD test.

no	Questions	Set1(means)*	Set 2	Set 3	Set 4
1	the cash flow statement assists in internal control procedure	3.06(A.C) 3.10(S.C) 3.21(C.C)	3.71(M.C)		
2	the cash flow statement is useful in evaluating the financial position of the company and comparing performance between companies	3.40(C.C)	3.91(A.C) 3.94(M.C)		
3	the cash flow statement provides information about future cash flows	3.00(S.C) 3.07(C.C)	3.62(M.C)		
4	the cash flow statement assessing the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period	3.15(S.C)	3.69(M.C)		

As we can see above, differences were observed with 5 questions when factored by groups ($P<0.05$). (See Appendix no 8)

* 1= strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree.

CHAPTER SEVEN

QUALITATIVE FINDINGS

7.1 Introduction:

This chapter reports on the findings of the interviews conducted in Libya during the period November to December 2007.

The chapter commences with the objectives of the interviews. Thereafter, the chapter describes and summarises the interview data that was collected from preparers and investors in Libyan Investment Companies.

The collected data from interviewees is analysed by using key information. These procedures were continued in seeking the themes and patterns in the data. Concepts underlined in the analysis were analysed according to the research framework. Also new themes or concepts that were highlighted in the interviews were handled in a flexible way and considered in relation to the research framework.

This involved grouping together answers from the different interview transcripts by topic per the interview guide and allowing the guide to act as a descriptive framework for analysis. Once answers had been grouped by topic, they were analysed using key information.

This chapter, is structured as follows, section 7.2 presents the objectives of interviews. Section 7.3 presents the key themes of interviews. Section 7.4 presents the results of methods of Cash Flow Statement preparation. Section 7.5 presents the results of

purposes of preparing Cash Flow Statements. Section 7.6 presents the results to the effect of cash flow information on investment decisions. Section 7.7 presents a summary and conclusion.

7.2 Objective of interviews:

Interviews were conducted in order to approach some issues that could not be captured properly or analysed through a quantitative approach. Preparers and investors in Libyan Investment Companies, as they are represented in the sample of interviewees, are expected to provide information in a private meeting and explain further issues related to the significance of information contained in the Cash Flow Statements of Libyan companies based on the three factors (methods of Cash Flow Statement preparation, purposes of preparing Cash Flow Statement and the effect of cash flow information on investment decisions)

Thus, interviews were thought to be appropriate to offer guidance to fruitful extensions of the research findings and interpretations of the quantitative study

7.3 Key themes:

The interviews were structured around three key themes:

- Methods of Cash Flow Statement preparation Libyan companies' use.
- Purpose of preparing Cash Flow Statements in Libyan companies.

- Effect of cash flow information on investment decisions of Libyan investment firms.

These themes were introduced by the researcher who first ensured that the respondents understood the question being asked. This prompted a discussion between the researcher and the respondent on the significance of information contained in the Cash Flow Statements.

The interviewees and their positions in their organisations are shown in the table below. Each interviewee was labelled accordingly, and these labels are used to identify the origin of quotes used in the following sections.

Table (7-1) Interviews with officials at the Libyan Investment Company as they represent the investors and preparers.

Label	Interviewee	Position	Type of company
In1	Abuagila Alhade	Investor	Commercial company
In2	Mohamed Ali	Investor	Commercial company
In3	Al Taher al Taeb	Investor	Agricultural company
In 4	Nadme Ashwash	Investor	Agricultural company
In5	Joseph Galea	Preparer	Service company
In6	Privitelli Eugenio	Preparer	Service company
In7	Vella George	Preparer	Manufacturing company
In8	Fenech Neville	Preparer	Manufacturing company

7.4 Methods of Cash Flow Statement Libyan companies use:

The purpose of this section is to express the views of officials at the Libyan Investment Company as they represent the investors regarding the methods of Cash Flow Statement Libyan companies' use. This was addressed by:

- The method of Cash Flow Statement preparation method employed.
- Does the Cash Flow Statement assist in the internal control procedure for cash?
- Is the Cash Flow Statement prepared according to IAS 7?

The first issue discussed the methods of Cash Flow Statement preparation Libyan companies' use; some interviewees typically mentioned the following opinions:

The interviewees in this question stated that the direct method of Cash Flow Statement was used the main reasons for using direct method provides actual inflows and outflows generated and employed and compares between activities:

“The direct method is best to highlight the main inflows and outflows of cash. The most important is to compare cash generation from operations to those raised from investing activities and to cash dedicated to financing activities”. (In4)

“Under direct method the cash flow statement provides evidence of all actual inflows and outflows generated and employed by the company and therefore would be more consistent with the objective of the statement” (In3)

Other interviewees confirmed that the direct method of Cash Flow Statement preparation was used due to confirm or correct their past evaluations and that management is kept abreast of the availability of cash to meet its outgoings:

“Within our company we use the direct method to confirm or correct past evaluations and was perceived to enable managers to assess their accountability” (In 8)

“We prepare regular cash flow statements and we use the direct method. Being a company that is relatively highly geared with substantial exposure, it is important that management is kept abreast of the availability of cash to meet its ongoing and long term commitments.” (In2)

Some interviewees illustrated a preference for the use of the direct method because can be traced to the cash records of the entity and which cannot be deduced from the other financial statements and assessing the economic value of sales:

"The direct method provides information about the amount of sales that have actually resulted in cash inflows. This can be very useful in better assessing the economic value of sales shown in the profit and loss account" (In6)

"We prefer to use the direct method as the main advantage of the direct method is that it presents a summary of the major categories of operating cash inflows and outflows which can be traced to the cash records of the entity and which cannot be deduced from the other financial statements" (In1)

The interviewees mentioned some reasons for preparing direct method such as difficult process of using the indirect method

"We do not use the indirect method because it is a difficult therefore we used the direct method" (In7)

One interviewee explained that the financial system in their company recommended the direct method:

“Our financial system in my organization recommends the direct method” (In5)

In general the Libyan investment companies prefer to use the direct method in preparation of Cash Flow Statement, and they believe the direct method is better, because it is easier to understand. The result is compatible with many previous studies findings such as McEnroe (1996) and Boyd (2001). Furthermore, the survey results reflected that 55% (appendix 5) of the surveyed respondents stated that the direct method of preparation should be used in Cash Flow Statement. An important advantage of the direct Statement of Cash Flows for current analysis would be the tracing of cash flows from firms' activities.

As firms should control their cash flows for internal purposes. The direct Statement of Cash Flows should not cause much additional effort and cost and would be easily initiated. But the management should assure the reasonable classification of cash flows as cash flows from operating, investing and financing activities.

The second point discussed the issue of methods of Cash Flow Statement Libyan companies' use. Does the Cash Flow Statement assist in the internal control procedure? Three interviewees explained that the Cash Flow Statement assists in the internal control procedure by the preparation of the Cash Flow Statement, in order to be useful as a management and control tool. This result is consistent with Kmhagen (2005). Some interviewees typically mentioned the following opinions:

The interviewees in this question stated that the Cash Flow Statement assists in the internal control procedure and can pinpoint the main areas which would require more internal controls especially when compared to prior periods and budgets:

"The cash flow statement gives a synopsis of the cash movements of the organisation for the given period and this can pinpoint the main areas which would require more internal controls". (In3)

"For management purposes having the cash flow statement prepared by the direct method, aids in the control, especially when compared to prior periods and budgets". (In7)

Another interviewee confirmed that the Cash Flow Statement assists in the internal control process is the assurance that it gives

within the risk review to movements of stocks, accounts receivable and payable:

“The main use of the cash flow statement within the internal control process is the assurance that it gives within the risk review (movements of stocks, accounts receivable and payable) thus ensuring that policies in these areas are being adequately monitored and controlled. A relative increase in accounts receivable over a period of time might suggest that the company is finding problems with the collection of its accounts receivable that could eventually lead to cash shortages etc., increase in stocks could indicate mis-management in this area whilst a decrease of accounts payable could indicate that the company is not taking advantage of supplier credit periods”. (In8)

However, two interviewees explained that the Cash Flow Statement does not assist in the internal control procedure generally with the exception that it shows cash inflow and cash outflow

“The Cash Flow Statement does not add much to control. What in actual fact adds to such control is the cash flow forecast that we prepare on a monthly basis. This serves as a basis for short term financial planning. This adds a lot of value in ensuring that payments are made in line with financial requirements” (In6)

"I do not think the cash flow statement assists in the internal control procedure with the exception its shows cash inflow and cash outflow" (In1)

The last point is discussed in methods of Cash Flow Statement preparation Libyan companies' use, such as the Cash Flow Statement prepared according to IAS 7. Interviewees expressed the following opinions:

Most interviewees mentioned that the Cash Flow Statement prepared in line with International Accounting Standard (IAS7) as required by the law:

"The cash flow that is included in the financial statements is compiled in conformity with the requirements of IAS's as required by the law". (In 4)

"For financial statement purposes the cash flow is compiled using IAS7" (In 2)

“Cash flows are prepared in line with IAS7 – The Company is by law required to produce financial statements in line with IAS requirements” (In 5)

“Our company prepared according to IAS 7 because we are required to do so by law”. (In8)

Two interviewees explain that as Libya is a developing country, there is no local accounting standard in Libya about the Cash Flow Statement therefore the companies rely on the international accounting standard:

“I can say all the companies prepared according to international accounting standard because there is no local accounting standard in Libya about the cash flow statement” (In6)

“Like most of the companies in Libya, we have not a local standard regarding the cash flow statement, the companies rely on the international accounting standard” (In1)

The results of interviews suggested that all the interviewees agreed that the Cash Flow Statement is prepared according to IAS7. The researcher checked the cash flow statement complies with IAS7. The result of the check indicated that cash flow statements were

prepared according to IAS7. IAS7 provides the standard headings of operating, investing, and financing activities and allows limited flexibility as to what is included under the headings. IAS7 also permits the use of the direct or indirect method of reporting operating cash flows.

Based on the above results it seems that interviewee's demonstrated acceptance of IAS7. Interviewees have paid attention to the main reason that there is no local accounting standard about the Cash Flow Statement in Libya. The interviews results supported Questionnaire results in this area.

This result is consistent with the questionnaire results in chapter six, statement No 1-5 in Table 6-7 indicated that the Cash Flow Statement should be prepared according to International Accounting Standard 7. Out of the total sample, 87% agreed with the statement. They demonstrated acceptance of IAS7. The mean score for the total sample 4.16 were between agree and strongly agree with this issue

7.5 Purpose of preparing Cash Flow Statements in Libyan companies

The objective of this section is to highlight the views concerning the purpose of preparing Cash Flow Statements in Libyan companies. This issue was addressed by the following factors:

- What are the advantages of preparing a Cash Flow Statement?
- Is the Cash Flow Statement prepared for external and/ or internal purposes?
- Is the Cash Flow Statement useful in the evaluation of the financial position by users?

In general, in interviews there was an agreement among the respondents concerning the purpose of preparing Cash Flow Statements in Libyan companies.

Regarding the first issue, all of the respondents agreed that the Cash Flow Statement has advantages such as providing information about liquidity and providing information about cash receipts and cash payments. It provides information which enables the users to estimate future cash flows if prepared under the direct method. Interviewees expressed the following opinions:

“Profitability without liquidity is as good as no profit at all. Cash and profits are for a business what engine oil and fuel are for a car. You will not go too far without either of them. Financial statements do not show the full picture if movements in cash and cash equivalents is not disclosed in detail”. (In5)

Some interviewees mentioned that advantages of preparing a Cash Flow Statement as a type of control it also shows what are the main sources of financing of the company Internal/external sources and what strength the organisation has meeting its obligations to assess cash requirements:

"It is a type of control. Furthermore it assists in assessing the use of cash". (In 3)

"That the cash flow actually shows the ability of the organisation to crystallise its operating activities into a highly flexible cash asset. Moreover it also shows what are the main sources of financing of the company i.e. Internal/external sources and what strength the organisation has meeting its obligations. Cash flows also highlight the actual deployment of cash and assess the ability of the entity to generate cash and cash equivalents and enable users to develop models to assess and compare present value of the future cash flows of different entities". (In 1)

"The main advantage is that the cash flow statement to assess cash requirements to ensure that it does not run out of liquidity". (In 7)

Other interviewees confirmed that the Cash Flow Statement explains how a company has obtained its financial resources and how these resources have been used

“I agree that the cash flow statement has advantages as the evaluation of risk, which includes both the expected variability of future return and probability of insolvency or bankruptcy” (In4)

“The statement intends to explain how a firm has obtained its financial resources and how these resources have been utilised in the reporting period” (In6)

One interviewee explained that the Statement of Cash Flow gives more disclosure in financial statements

“In general the statement of cash flow has advantages and gives more disclosure in financial statements” (In8)

The interview results gave the impression that the Cash Flow Statements have advantages such as indicator for liquidity. This result is consistent with previous studies. In general this result was in line with the questionnaire results in chapter six that showed in table (6-12) the Cash Flow Statement has advantages such as provides information about liquidity. It was noticed that 84% of the sample rated this information as “important”. They believe that the Cash Flow Statement provides information about liquidity. The mean score obtained was 4.10.

The second point addressed the issue of whether Cash Flow Statements are prepared for external and/ or internal purposes.

The majority of interviewees stated that the Cash Flow Statements are prepared for external and internal purposes. The respondents indicated that Cash Flow Statements were used in their companies for different purposes such as the ability of accompany to generate and maintain adequate levels of liquidity, to pay back loans and obligations, to distribute dividends. The result is compatible with many previous studies findings such as Lee (1981) and McEnroe (1989) Interviewees expressed the following opinions:

“The cash flow is prepared both for internal and external purposes. For internal purposes this is done on a monthly basis on the basis of the monthly management accounts, whilst on a six monthly basis it is prepared for outsiders (including banks, shareholders, financial institutions etc.,)” (In 8)

Most interviewees mentioned that the Cash Flow Statement is prepared for both internal and external use: as internal to provide level of liquidity in a company and as external to give a full picture of financial situation for investors, banks and creditors:

“Cash flow in terms of IFRSs is used for external use

Monthly cash flow forecasts which do not follow any standard are used for short term financial planning” (In 5)

“I think both for management accounting as internal purposes, for investors, banks and creditors as external purposes”. (In 3)

“The cash flow included in the financial statements is mainly prepared for external purposes while another detailed cash flow is prepared for management purposes”(In 2)

“In fact in both to be useful for internal and external as internal to provide a level of liquidity in a company for external to give full picture of the financial situation for users” (In6)

Another interviewee explains that the Cash Flow Statement providing information that is not available in other financial statements

“In all purposes the cash flow statements are useful in supplying information not available elsewhere” (In 4)

To summarise the results of interviews indicated the Cash Flow Statements prepared for internal and external purposes Furthermore, the survey results reflected that 45% (table4.1) of the surveyed was focused on is the Cash Flow Statement used for external purposes by bankers, creditors and analysts. While 53% Out of the total sample agreed that the Cash Flow Statement is used for internal purposes.

The last point discussed is the Cash Flow Statement is useful in the evaluation of the financial position.

The interviewees explained that the Cash Flow Statement is useful in the evaluation of the financial position, because the Cash Flow Statements are also an easily understandable measure of performance and usually provide a good indication of financial distress. They can therefore be particularly useful to help less experienced users of financial reports to understand the financial position of a company. This result is consistent with Marc (2006) Interviewees expressed the following opinions:

“Our company bases a lot of reliance on cash flows for the points mentioned earlier and for the fact that being a rapidly growing company with substantial investment still at the embryonic stage i.e. in a phase where investment still needs to be properly supported, cash flow sourcing and management is of major relevance”. (In 7)

The interviewees in this question stated that the Cash Flow Statement is useful in the evaluation of the financial position, since it aids in highlighting the use and source of cash and in valuing a business, cash flow is much more indicative than profit

“Definitely – in valuing a business, cash flow is much more indicative than profit. It is the main value indicator. When a business is being valued, the present value of future cash generation is the key indicator and not profitability – this is done on the cash generation capabilities.

In arriving at profitability one needs to account for non-cash items such as depreciation, amortisation and deferred tax which blur the real value of a business. In arriving at Cash Flow one takes account of real capital expenditure requirements and real taxes paid. This is a far better indicator”. (In 2)

“Definitely, since it aids in highlighting the use and source of funds”. (In 5)

“It is useful up to an extent since the cash flow statement included in the financial statements does not show the future position. Normally such a statement needs to be also seen in conjunction with the company’s”. (In 1)

Some interviewees confirmed that the Cash Flow Statement evaluated what is really happening in a business and what it will do next and evaluated all activities in the company

“As we are reporting the cash flow statement evaluated all activities in the company during the period” (In 8)

“Statement of cash flow evaluated what is really happening in a business and what it will do next” (In6)

In conclusion, it is apparent that interviewees were satisfied the Cash Flow Statement believe that it is useful in evaluating the financial position of the company and comparing performance between companies. The questionnaire results in chapter six consistent with interview results in table (6-17) 70% Out of the total sample agreed that the Cash Flow Statement is useful in evaluating the financial position of the company and comparing performance between companies.

7.6 Effect of cash flow information on investment decisions of Libyan investment firms:

The main objective of this section is to present the opinions of interviewees related to their evaluation of the effect of cash flow information on investment decisions of Libyan investment firms. Regarding this issue, three points were addressed in the interviews;

- The effect of cash flow information on funding decisions
- Is the Cash Flow Statement useful in providing information to help decision makers?
- Does the Cash Flow Statement provide information useful for expansion in investment activity?

Regarding the first issue, there was strong agreement among the interviewees that the effect of cash flow information on funding decisions; is that the size of the company plays a big role in the source of funding. The majority of interviewees agreed that there is an effect of cash flow information on funding decisions, and they believe the Cash Flow Statement assists financial management in assessing the need for borrowing. Interviewees expressed the following opinions:

“The main issues that are explained are whether the company is in a position to follow the pecking order for financing activities and thus whether it initially has sufficient cash flow to internally finance its ‘investment projects’ both in the short and long term.

The strength of the company in sustaining long term investment through outside sourcing is also highlighted from the potential operating cash flows that are potentially generated internally highlighted from the 'Net Cash from operating activities" (In 6)

Another interviewee mentioned that the Cash Flow Statement assists management in assessing whether there are any financing gaps:

"Cash flow statement assists management in assessing whether there are any financing gaps. Depending on this assessment, one might approach financial institutions". (In 8)

"Absolutely the effect of cash flow information on funding decisions we do not use a bank loan or equity issue to finance our investment, because the company has excess cash in the form of time-deposit in bank. So the availability of internal funds enables the firm to use it to finance its investment as the cheapest source of funds and to avoid the high interest rate on the bank loan".(In4)

Small investments relying on internal sources and the large size of investment depend on bank loans to finance the investment:

"Regarding funding decisions our policy to finance the prospective investment depends on the size of investment; we usually finance our small investments through the firm's internal sources. For the large size of investment we depend on bank loans to finance the investment, since the internal funds alone are not sufficient to finance the project." (In7)

"We used the cash flow information for internal funds to finance our investment to avoid the interest associated with debt, but in some cases the large size of the project makes the internal funds not sufficient to finance the project, so the firm has to turn to the local banks to get the finance required." (In1)

In general the Libyan investment companies believe that the Cash Flow Statement assists in taking decisions concerning the financial requirement Furthermore, in chapter six the survey results reflected that 78% (Table 6-23) of the surveyed respondents stated that the Cash Flow Statement assists financial management in assessing the need for borrowing

The second point addressed the issue of is the Cash Flow Statement useful in providing information to help decision makers.

Interviewees expressed the following opinions:

The interviewees in this question stated that the Cash Flow Statement is useful in providing information to help decision makers to determine the strategy that the company will adopt in further financing investment activities and important resources in order to ensure continuity of expansion:

"Cash flows determine the strategy that the company will adopt in further financing investment activities. Moreover it also gives management the necessary information to determine the effect of any cash flow shortage on operating activity considered by management as the most important resource in order to ensure continuity of expansion" (In 4)

"It helps decision makers to take decisions concerning the financial requirement" (In1)

One interviewee explained that the Cash Flow Statement helps decision makers to take decisions concerning the financial requirement:

“Cash Flow Statement shows the real inflows and outflows and removes the effect of any financial standards on the calculation of the individual items – such as accruals, valuations etc. So yes this is helpful in looking at the real cash commitments”. (In 5)

Other interviewees mentioned that the Cash Flow Statement is very useful for taking decisions as the raising of more capital, the distribution of dividends. And also to help decision makers for taking decisions about the required funding is derived from other sources:

“If one is funding a project from one’s own cash flow, then the cash flow statement is very important for the successful completion of the project. If on the other hand the project is being funded from external sources then one relies less on the cash flow statement as the required funding is derived from other sources”. (In 2)

“Moreover decisions such as the raising of more capital, the distribution of dividends etc. can be taken”. (In 8)

Based on the interviewees’ responses, a number of weaknesses were identified in the Cash Flow Statement. It is not useful in providing information to help decision makers. However, the

majority of the interviewees agreed that the Cash Flow Statement is useful in providing information to help decision makers. They believe that a Cash Flow Statement is important in highlighting the liquidity in the company and in turn helps to make a particular decision. For example creditors decide to increase or decrease the level of loans to the company according to its liquidity. This result is consistent with the questionnaire results in chapter six, statement No 3-1 in Table 6-22 indicated that the Cash Flow Statement meets the needs of decision makers. Out of the total sample, 68% agreed with the statement. The mean score for the total sample 3.76 were agreed with this issue. This is similar to the findings of a previous study such as Barker (2001).

The last point discussed does the Cash Flow Statement provide information useful for expansion in investment activity. Interviewees expressed the following opinions:

“The cash flow statement whilst not being a projection for the future gives an indication how management is actually controlling the cash flow portfolio. I would however recommend in this instance that a useful tool would be to give a cash flow projection from three to 5 years thus indicating the sustainability of operations for a reasonable period of time above those highlighted by current cash flow statements”. (In 7)

Most interviewees confirmed that the Cash Flow Statement provide information useful for expansion in investment activity and details of the excess cash capacity that can be invested

“Yes it shows that cash available after servicing both banks and investors – any excess cash would potentially be available for investment”. (In 5)

“The underlying cash flows of the present business always support expansion, but expansion is driven by other parameters such as the potential for growth and profit and the availability of finance – either internal or external”. (In 2)

"It provides details of the excess cash capacity that can be invested". (In 8)

Some interviewees determined that the Libya is a developing country it needs expansion in investment activity, for that reason the Cash Flow Statement provides very useful information

"In the best situations the statement of cash flow provides us with how much cash we have and how exactly cash has been used" (In6)

"As Libya is a developing country it needs expansion in investment activity, for that reason the cash flow statement provides very useful information" (In3)

In general all interviewees pointed out that the Cash Flow Statement does provide information useful for expansion in investment activity, because it highlights movements in liquidity, and permits understanding of how exactly cash has been generated and employed. It is also particularly useful to predict amounts of cash available for expansion in investment activity.

7.7 Summary:

The results from interviews have been presented in this chapter.

The interviewees were of a similar profile, in terms of age, work experience and positions within their organisations, as respondents to the questionnaire. The interviews were conducted with 8 interviewees, 4 with investors and 4 with preparers. The interviews covered three areas, methods of Cash Flow Statement preparation, the purpose of preparing the Cash Flow Statement and the effect of cash flow information on investment decisions of Libyan investment firms.

The majority of the interviewees prefer to use the direct method in preparation of Cash Flow Statements, and they believe the direct method is better, because it is easier to understand at first glimpse, Regarding the purpose of preparing the Cash Flow Statement there was strong agreement across the interviewees that the Cash Flow Statement has advantages such as providing information about liquidity and providing information about cash receipts and cash payments. They mentioned that advantages of preparing a Cash Flow Statement as a type of control it also shows what are the main sources of financing of the company Internal/external sources and what strength the organisation has meeting its obligations to assess cash requirements.

Finally interviewees agreed that there is an effect of cash flow information on funding decisions, and they believe the Cash Flow Statement assists financial management in assessing the need for borrowing to intended needs and ability to meet repayments.

CHAPTER EIGHT DISCUSSION AND CONCLUSIONS

8.1 Introduction

The main purpose of this chapter is to summarise the key findings, in line with the research aims and the research questions. The second part presents the conclusions, which includes possible explanations for the significance of information contained in the CFS at Libyan investment companies. The conclusion addressed the research questions and provides recommendations and some suggestions for future research in relation to the significance of information contained in the CFSs at Libyan investment companies.

The research set out to investigate CFS and address specifically, the following objectives:

- To analyse to what extent the alternative methods of Cash Flow Statement preparation assist in evaluating the operating activities of companies by investors.
- To investigate the purpose of preparing Cash Flow Statements in Libyan investment companies
- To assess to what extent the cash flow information helps present and potential investors and creditors in their decision-making.

In particular, the research sought answers to the following questions:

- 1-What methods of Cash Flow Statement preparation do Libyan companies use?

2-Should Cash Flow Statements be reported for external or internal purposes?

3-What effect does cash flow information has on investment decisions of Libyan investment firms?

8.2 Discussion of results:

This section discusses and interprets the main findings reported by the two main data collection methods (the questionnaire survey and the interviews) which are used in this research.

The research sought to examine views and perceptions regarding several issues as follows:

8.2.1 Methods of Cash Flow Statement Libyan companies use:

In this section the participants' opinions about the methods of Cash Flow Statement preparation

The findings indicate that the participants ranked the direct method of reporting cash flows above the indirect method of reporting cash flows. Managers' responses showed that they preferred the direct method because the direct method was perceived to help them to make decisions about the allocation of scarce resources. The direct method was also perceived to help them in making predictions about the outcomes of past, present and future events. The direct method was perceived to confirm or correct their past evaluations and was perceived to enable managers to assess the rendering of accountability by preparers of the CFS. Consistent with prior studies, managers find the direct method of CFS useful in planning and controlling day-to-day operations. This result is consistent with arguments with other studies (Jones et al., 1995;

Jones and Ratnatunga, 1997; Jones and Widjaja, 1998; Jones, et al, 1998; and Clinch, et al, 2002). These researchers have found that a variety of users prefer the direct method that assists them (together with other data) in making their decisions.

The result of this test is presented in table (6.26). Looking at the 10 questions regarding the methods of cash flow statement preparation, Q1- the Cash Flow Statement is a valid measure of cash generating ability, 62% of the participants agreed with that. However, the result of overall mean (3.69) indicated that their opinion were between neutral and agree for the Cash Flow Statement as a valid measure of cash generating ability.

Q2-The Cash Flow Statement is more meaningful than net income from operations in evaluating the economic performance of a firm. 59% of respondents agree with that However, the result of overall mean (3.63) indicated that their opinion were between neutral and agree for whether the Cash Flow Statement is more meaningful than net income from operations in evaluating the economic performance of a firm.

Q3- Cash Flow Statement should be shown in the annual report.92% of the participants agreed with that However, the result of overall mean (4.36) indicated that their opinion were between agree and strongly agree for whether the Cash Flow Statement should be shown in the annual report

Q4- the Cash Flow Statement should be included in the annual report on a comparative basis for the same number of years as the income statement.77% of respondents agree with that However, the result of

overall mean (3.94) indicated that their opinion were agree for whether the Cash Flow Statement should be included in the annual report on a comparative basis for the same number of years as the income statement.

Q5- the Cash Flow Statement should be prepared according to IAS7.

87% of respondent agree with that However, the result of overall mean (4.16) indicated that their opinion were between agree and strongly agree for the Cash Flow Statement should be prepared according to IAS7.

Q6- the Cash Flow Statement should be classified as operating, investing, and financing.88%of the participants agreed with that However, the result of overall mean (4.16) indicated that their opinion were between agree and strongly agree whether the Cash Flow Statement should be classified as operating, investing, and financing.

Q7- the Cash Flow Statement is to provide relevant information about cash receipts and cash payments.86% of respondent agree with that However, the result of overall mean (4.12) indicated that their opinions were between agree and strongly agree whether the Cash Flow Statement provides relevant information about cash receipts and cash payments.

Q8- the Cash Flow Statement provides information about the historical change in cash and cash equivalents.60% of respondent agree with that However, the result of overall mean (3.53) indicated that their opinion was between neutral and agree for the Cash Flow Statement providing information about the historical change in cash and cash equivalents.

Q9- the Cash Flow Statement assists in the internal control procedure.47% of the participants agreed with that However, the result of overall mean (3.30) indicated that their opinion were between neutral and agree for whether the Cash Flow Statement assists in the internal control procedure.

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

Q1 Cash flow statement assists in internal control procedure

Table :(7-1) results of Tukey HSD test

type	N	Subset for alpha = .05	
		1	2
agricultural	45	3.0667	3.2143
service	40	3.1000	
commercial	42	3.2143	
manufactur er	53		3.7170
Sig.		.894	.079

Means for groups in homogeneous subsets are displayed.

- a. Uses Harmonic Mean Sample Size = 44.494.
- b.The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

It can be seen that the above statement when is factored by type of company the mean differences occur between manufacturer companies and other set. The means for manufacturer companies shows more agreement that the Cash flow statement assists in internal control procedure

Based on these findings, it can be suggested that there are generally no significant differences between official's opinions regarding the methods of Cash Flow Statement preparation, when factored by type of company. Therefore, the following null hypothesis was accepted

H₀: there is no significant difference between the sample means in official's opinions regarding the methods of cash flow statement preparation when factored by type of company.

Interview results in this area were in line with questionnaire results. Interviewees believed that the direct method of Cash Flow Statement was prepared to confirm or correct their past evaluations and the management is kept abreast of the availability of cash to meet its ongoing needs. The main reasons for using the direct method is that it provides actual inflows and outflows generated and employed.

8.2.2 Purpose of preparing Cash Flow Statements in Libyan companies

With regard to the possible purposes for preparation of Cash Flow Statements in Libyan investment companies, the participants in the survey indicated that the purpose of Cash Flow Statements is for external and internal purposes. The respondents indicated that Cash Flow Statements were used in their companies for different purposes such as the ability of a company to generate and maintain adequate

levels of liquidity, to pay back loans and obligations, and to distribute dividends. The result is compatible with many previous studies findings such as Lee (1981) and McEnroe (1989)

The result of this test is presented in table (6.27). Looking at the 10 questions regarding the purpose of preparing the Cash Flow Statement, Q1- the Cash Flow Statement provides information about liquidity 84% of the participants agreed with that However, the result of overall mean (4.10) indicated that their opinions were between agree and strongly agree for the Cash Flow Statement provides information about liquidity Q2- the Cash Flow Statement providing information about the quality of cash flow management 45% of respondent agree with that However, the result of the overall mean (3.23) indicated that their opinion was between neutral and agree for the Cash Flow Statement providing information about the quality of cash flow management.

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

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

Q5- Cash Flow Statement is used for external purposes by bankers, creditors and analysts. 45% of the participants agreed with that

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

Q6- the Cash Flow Statement is useful in evaluating the financial position of the company and comparing performance between companies.70% of respondents agreed with that However, the result of the overall mean (3.74) indicated that their opinions were between neutral and agree for whether the Cash Flow Statement is useful in evaluating the financial position of the company and comparing performance between companies.

Q7- the Cash Flow Statement provides information not included in the income statement and the balance sheet.66% of the participants agreed with that However, the result of overall mean (3.81) indicated that their opinion were between neutral and agree for the cash flow statement providing information not included in the income statement and the balance sheet.

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

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

and agree for whether the Cash Flow Statement provides information about future cash flows.

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

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

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

Table :(7-2) results of Tukey HSD test

type	N	Subset for alpha = .05	
		1	2
commercial	42	3.4048	
service	40	3.6500	3.6500
agricultural	45	3.9111	3.9111
manufactur er	53		3.9434
Sig.		.057	.457

Means for groups in homogeneous subsets are displayed.

- a. Uses Harmonic Mean Sample Size = 44.494.
- b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

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

the financial position of the company and comparing performance between companies.

Q2 the cash flow statement provides information about future cash flows

Table :(7-3) results of Tukey HSD test

type	N	Subset for alpha = .05	
		1	2
service	40	3.0000	
commercial	42	3.0714	3.0714
agricultural	45	3.1556	3.1556
manufactur er	53		3.6226
Sig.		.915	.100

Means for groups in homogeneous subsets are displayed.

- a. Uses Harmonic Mean Sample Size = 44.494.
- b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

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

Based on above findings, it can be suggested that there are no significant differences between official's opinions regarding the purpose of preparing Cash Flow Statement, and the following null hypothesis was accepted.

H₀: there is no significant difference between the sample means in official's opinions regarding the purpose of preparing cash flow statement when factored by type of company.

The interviewees explained that the Cash Flow Statement is relevant in the evaluation of the financial position, because the Cash Flow Statements are also an easily understandable measure of performance and usually provide a good indication of financial distress. They can therefore be particularly relevant to help less experienced users of financial reports to understand the financial position of a company.

8.2.3 Effect of cash flow information on investment decisions of Libyan investment firms:

The results show that the Cash Flow Statement useful in providing information to help decision makers to determine the strategy that the company will adopt in further financing investment activities and an important resource in order to ensure continuity of expansion. They believe that a Cash Flow Statement is important to highlight the liquidity in the company and in turn help to make a particular decision. For example creditors decide to increase or decrease the level of loans to the company according to its liquidity. This is similar to the findings of a previous study such as Barker (2001).

The result of this test is presented in table (6.28). Looking at the 5 questions regarding the effect of cash flow information on investment decisions in investment firms

Q1- the Cash Flow Statement meets the needs of decision makers 68% of respondent agree with that However, the result of overall mean (3.76) indicated that their opinion were between neutral and agree for the Cash Flow Statement meeting the needs of decision makers

Q2- the Cash Flow Statement assists internal financial management in assessing the need for borrowing. 78% of the participants agreed with that. However, the result of overall mean (3.90) indicated that their opinion were between neutral and agree for the Cash Flow Statement assisting internal financial management in assessing the need for borrowing.

Q3- Cash Flow Statements provide sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability. 56% of respondent agree with that However, the result of overall mean (3.48) indicated that their opinions were between neutral and agree for Cash Flow Statements providing sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability.

Q4- the Cash Flow Statement assists financial management in assessing the need for expansion in investment activity and funding 71% of the participants agreed with that However, the result of overall mean (3.82) indicated that their opinion were between neutral and agree for the Cash Flow Statement assisting financial management in assessing the need for expansion in investment activity and funding.

Q5- the Cash Flow Statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period. 55% of respondent agree with that. However, the result of overall mean (3.46) indicated that their opinions were between neutral and agree for the Cash Flow Statement assessing the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period.

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

Q1 Cash flow statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period

Table :(7-4) results of Tukey HSD test

type	N	Subset for alpha = .05	
		1	2
service	40	3.1500	
commercial	42	3.3810	3.3810
agricultural	45	3.5333	3.5333
manufactur er	53		3.6981
Sig.		.180	.337

Means for groups in homogeneous subsets are displayed.

- a. Uses Harmonic Mean Sample Size = 44.494.
- b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

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

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

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

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

Libya investment sector became a crucial sector among Libyan economy especially after the sanctions were lifted. The act encouraged foreign investments in areas that would result in a transfer of modern technology, a multiplicity of income resources.

The investment has become attractive for foreign investors.

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

8.3 Contribution to knowledge

1. The findings of this research will assist users of financial information to make decisions. Investors and creditors can use Cash Flow Statements to assess future cash flows of companies in evaluating their future liquidity, solvency and other performance.
2. The results of this research will provide evidence of the relevance of the Cash Flow Statements of Libyan investment companies.
3. This research contributes to enrich the limited studies on CFS conducted in developing economies in general and within the Arab countries in particular. It is the first research which addresses CFS in Libya which has been neglected in the CFS literature. It provides the

first detailed assessment of CFS information among Libyan investment companies. This study provides the basis for a comparison with other Arab and developing economies, as well with as developed economies.

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

Based on the research's outcomes some recommendations can be made in relation to Cash Flow Statement, in particular, the significance of information contained in the Cash Flow Statements, in general within the Libyan context. There are two key recommendations:

Firstly, So as to improve the awareness of the importance of information contained in the Cash Flow Statements, Libyan organisations should present the information in a form where it is accessible to both internal and external stakeholders.

Secondly, to provide guidance for the companies in Libya about the Cash Flow Statement, the accounting body in Libya should issue a local standard regarding Cash Flow Statement or support the use of IAS7.

8.4 Limitation of the study

While this study has provided valuable insights, there are some limitations, which may limit generalisability. The first limitation of the current study comes from the sample size used in this study. The sample size of this study confined to Libyan investment companies, so the banks and insurance companies are excluded from this study. There was incomplete information available for these firms during the period of the study. The majority of companies are listed on Libyan Stock Market (LSM) since 2008. Therefore, the results of this study would be more effective if there were information available on the excluded firms.

The second limitation of this study comes from the interviews. The researcher faced many constraints regarding free access to participants in the interviews. From 20 individuals contacted; only 8 were interviewed. In addition, despite the fact that the interviewees tend to provide useful information, some of them refused to answer the question directly claiming that the information is confidential, despite the fact that the researcher confirmed that this information would be used for academic research only.

8.5 Further research:

Further research could address several issues. The current study examined the significance of information contained in the Cash Flow Statements at Libyan investment companies. Further research might attempt to extend this examination to include other sectors such as banking and insurance. The government has used banks and insurance companies to create the Libyan Stock Market (LSM) and privatisation efforts in general, slowly feeding them into the private sector. It has thus far proved an important process for widening the ownership base of private enterprises, improving access to capital, increasing transparency in the local business environment and providing a lower-risk entry point for foreign involvement in the economy. Initial public offerings (IPOs) started in 2007, but the LSM was not fully operational until January 2008. This would make the results of this study more effective.

An interesting future research project would be to investigate the role of Libyan Stock Market (LSM) in developing the Libyan economy. Therefore, research on the efficiency of LSM should be useful for both the policy makers in the market itself and investors.

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APPENDICES

Appendix 1

Names of the firms

The following table present the names of the firms that was used as a sample

<i>Name of the company</i>
Corinthia group of companies
Arab company for agricultural projects
Arab potash company
Arab company for mining
Lafico to Tunisia
The Arab investment company
Pak-Libya holding company
Libyan Yemen holding company
Agricultural company Roots
Arab company for financial services
Libyan Arab Maltese holding company
Arab company to build and repair ships
Arab Shipbuilding and repair yard
Midesan Company Ltd.
The company's central investments
Middle East hotels
Sea Malta Company
Holding company for Afterid
Company Mediterranean sea of electrical equipment
Company Mediterranean Airlines Ltd.
Libyan foreign bank
Arab Company for the transfer of marine oil

Appendix 2

The Arabic Version of the Interviews Questions

أرجو الإجابة على هذه الأسئلة مع التعليل:-

أولاً:- الأسئلة المتعلقة بالطرق قائمة التدفقات النقدية:-

1:- ما هي الطريقة المستخدمة في إعداد قائمة التدفقات النقدية؟ ولماذا؟

2:- هل قائمة التدفقات النقدية تساعد في إجراءات الرقابة الداخلية؟ وكيف؟

3:- هل قائمة التدفقات النقدية تعد وفقاً للمعايير الدولية؟ ولماذا؟

ثانياً:- الأسئلة المتعلقة الغرض من إعداد قائمة التدفقات النقدية :-

1:- ما هي الميزة من إعداد قائمة التدفقات النقدية؟

2:- هل قائمة التدفقات النقدية معدة للأغراض الداخلية أو الخارجية؟ وكيف؟

3:- هل قائمة التدفقات النقدية مفيدة في تقييم الوضع المالي؟ وكيف؟

ثالثاً:- الأسئلة المتعلقة بتأثير معلومات التدفق النقدي على القرارات الاستثمارية:-

1:- ما أثر معلومات التدفق النقدي على القرارات التمويلية؟ وكيف؟

2:- هل قائمة التدفقات النقدية توفر معلومات مفيدة لمساعدة صانعي القرار؟ وكيف؟

3:- هل قائمة التدفقات النقدية توفر معلومات مفيدة لتوسع في الأنشطة الاستثمارية؟ وكيف؟

Appendix 3
The Arabic Version of the Questionnaire

جامعة ليفربول جون مورس

استبيان

أهمية المعلومات التي تحتويها قائمة التدفقات
النقدية

أخي المشارك المحترم

فى البداية أود ان أقدم لك جزيل الشكر على منحك جزء من وقتك الثمين لتعبئة هذا الاستبيان. ان

الغرض من هذا الاستبيان هو قياس أهمية المعلومات التى تحتوئها قائمة التدفقات النقدية فى

الشركات وهو جزء من متطلبات درجة الدكتوراه فى المحاسبة التى يسعى الطالب لنيلها. ان هذه

الدراسة فى العموم تسعى لقياس أهمية المعلومات التى تحتوئها قائمة التدفقات النقدية فى الشركات .

أخي المشارك إن مساهمتك سوف تكون عامل مساعد لإنجاز هذا البحث مع التأكيد بأن البيانات

التى سوف تدلى بها فى هذا الإستبيان سوف تستعمل لأغراض البحث العلمى وسوف تعامل بكل

سرية من قبل الباحث. واخيرا لا يسعنى إلا ان أشكرك جزيل الشكر مقدرا لك حسن تعاونك.

محمد أحمد معتوق

Liverpool John Moores
University

M.A.MATOOK@2006.Ljmu.ac.uk

استبيان على قائمة التدفقات النقدية

القسم الأول: معلومات عامة

من فضلك اختار الإجابة المناسبة بوضع علامة (X) بين الأقواس:

اسم الشركة :

1- ما هو جنسك :
أ/ ذكر ()

ب/ أنثى ()

2- ما هو عمرك:

أ/ أقل من 30 سنة ()

ب/ من 30 سنة الى 39 سنة ()

ج/ من 40 سنة الى 49 سنة ()

د/ من 50 سنة فما فوق ()

3- ما هو المستوى التعليمي :

أ/ ثانوية عامة ()

ب/ بكالوريوس ()

ج/ ماجستير ()

د/ دكتوراة ()

هـ/ أخرى ()

4- ما هي عدد سنوات الخبرة :

أ/ أقل من سنتين ()

ب/ من سنتين الى 5 سنوات ()

ج/ من 6 سنوات الى 10 سنوات ()

د/ من 11 سنة الى 20 سنة ()

هـ/ أكثر من 20 سنة ()

5- ما هي وظيفتك :

أ/ مدير عام ()

ب/ رئيس قسم ()

ج/ مراجع داخلي ()

د/ محاسب ()

هـ/ أخرى ()

6- ما هو نوع نشاط الشركة :

أ/ خدمية ()

ب/ صناعية ()

ج/ تجارية ()

د/ زراعية ()

هـ/ أخرى ()

القسم الثاني : الأنشطة المتعلقة بالتقييم طرق إعداد قائمة التدفقات النقدية

الجزء الأول : الآراء حول طرق إعداد قائمة التدفقات النقدية :

الأسئلة في هذا الجزء متعلقة بوجهة نظرك حول طرق إعداد قائمة التدفقات النقدية المستخدمة في الشركة. يرجى الإشارة الى موافقتك او عدم موافقتك على البيانات التالية بشأن طرق إعداد بيان التدفقات النقدية في الشركة.
(يرجى وضع علامة واحدة لكل سؤال)

	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
1-1					قائمة التدفقات النقدية مقياس فعال لقدرة الشركة على خلق النقدية
2-1					تعبر قائمة التدفقات النقدية على الوضع الاقتصادي للشركة بصورة أفضل من قائمة الدخل
3-1					قائمة التدفقات النقدية ينبغي أن تعرض في التقرير السنوي
4-1					قائمة التدفقات النقدية ينبغي أن ترفق في التقرير السنوي كأساس للمقارنة مع قائمة الدخل في نفس الفترة
5-1					إعداد الطريقة المباشرة ينبغي أن تستخدم في قائمة التدفقات
6-1					قائمة التدفقات النقدية ينبغي أن تعد وفقا للمعايير الدولية
7-1					قائمة التدفقات النقدية ينبغي أن تصنف كالتشغيلية والاستثمارية والتمويلية
8-1					قائمة التدفقات النقدية تزود بالمعلومات المتعلقة بالنقدية المستلمة والنقدية المدفوعة
9-1					قائمة التدفقات النقدية تزود بالمعلومات المتعلقة بالتغير التاريخي في النقدية والنقدية المعادلة
10-1					قائمة التدفقات النقدية تساعد في إجراءات الرقابة الداخلية على النقدية

الجزء الثاني: الآراء حول الغرض من إعداد قائمة التدفقات النقدية.

الأسلة في هذا الجزء متعلقة بوجهة نظرك حول الغرض من إعداد قائمة التدفقات النقدية في الشركة. يرجى الإشارة إلى موافقتك أو عدم موافقتك على البيانات التالية حول الغرض من إعداد بيان التدفقات النقدية في الشركة.
(يرجى وضع علامة واحدة لكل سؤال)

		موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
1-2	قائمة التدفقات النقدية تزود بالمعلومات المتعلقة بالسيولة					
2-2	قائمة التدفقات النقدية تزود بالمعلومات حول جودة الإدارة					
3-2	قائمة التدفقات النقدية تساعد المستخدمين لمعرفة النتائج المالية في أفضل طريقة					
4-2	قائمة التدفقات النقدية تستخدم للأغراض الداخلية في الشركة					
5-2	قائمة التدفقات النقدية تستخدم للأغراض الخارجية					
6-2	قائمة التدفقات النقدية تفيد في تقييم الوضع المالي للشركة ومقارنة الأداء بين الشركات					
7-2	قائمة التدفقات النقدية تزود بالمعلومات غير موجودة في الميزانية وقائمة الدخل					
8-2	قائمة التدفقات النقدية تفيد في اكتشاف أي تلاعب في صافي الدخل					
9-2	قائمة التدفقات النقدية تزود بالمعلومات بشأن التدفقات النقدية المستقبلية					
2-10	قائمة التدفقات النقدية تزود بتفاصيل أكثر في الإفصاح					

الجزء الثالث: الآراء حول تأثير معلومات التدفق النقدي على القرارات الإستثمارية:

الأسلة في هذا الجزء متعلقة بوجهة نظرك حول تأثير معلومات التدفق النقدي علي القرارات الإستثمارية في الشركة.
يرجى الإشارة الى موافقتك او عدم موافقتك على البيانات التالية حول تأثير معلومات التدفق النقدي علي القرارات الإستثمارية في الشركة.
(يرجى وضع علامة واحدة لكل سؤال)

		موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
1-3	قائمة التدفقات النقدية تلبى احتياجات متخذي القرارات					
2-3	قائمة التدفقات النقدية تساعد الإدارة المالية في تقييم مدي حاجتها للإقراض					
3-3	قائمة التدفقات النقدية تقدم إفصاح كامل لمدراء الشركات لتقييم عملياتها ومعرفة اتجاهات السيولة والربحية					
4-3	قائمة التدفقات النقدية تساعد الإدارة المالية في تقييم مدي حاجتها لتوسيع أنشطتها الإستثمارية والتمويلية					
5-3	قائمة التدفقات النقدية تحدد التأثيرات علي الوضع المالي للشركة من حيث الاستثمار النقدي وغير النقدي من حيث المعاملات المالية خلال الفترة					

الجزء الرابع

أخي المشارك لولديك أي تعليقات يرجى كتابتها هنا

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Appendix 4
Questionnaire
Liverpool John Moores University

The significance of information contained in the cash

Flow statement of companies

Questionnaire

Dear respondents

I am currently engaged in research for PhD at Liverpool John Moores University, UK. I am particularly interested in cash flow statement in investment companies. So, the purpose of this survey is to collect some of the research data.

The result of that I would like to invite you to participate in this research by completing this questionnaire (from your own experiences) which should take no longer than 15 minutes to complete. I have left special space to write if there are any notes you think that might contribute in improving this research.

I would like to assure you that all responses to the questionnaire will be kept confidential.

Thank you very much for your cooperation.

Yours faithfully

Mohamed Matook

Ph.D. student

Business school

Liverpool John Moores University

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A QUESTIONNAIRE ON CASH FLOW STATEMENTS IN COMPANIES

SECTION ONE: GENERAL INFORMATION

Please answer by filling in the blank or ticking as appropriate:

Name of Company: -

1-Please tick to indicate your gender:

- a) Male () b) Female ()

2-Please tick one answer to indicate your age:

- a) 20 under 29 () b) 30 under 39 ()
c) 40 under 49 () d) 50 years and over ()

3-Please tick one answer to indicate your highest education level achieved:

- a) High school () b) First university degree ()
c) Postgraduate diploma () d) Masters ()
e) PhD () f) other, please specify ()

4-Please tick one answer to indicate work experience:

- a) Under 2 years () b) 2 to 5 years () c) 6 to 10 years ()
d) 11 to 20 years () e) Over 20 years ()

5- Are you:

- a) General Manager () b) Director of Department ()
c) Internal Auditor () d) Accountant ()
e) Others please specify ()

6- Please indicate the type of company:

- a) Service () b) Manufacturer () c) Commercial ()
d) Agricultural () e) Others, please specify ()

SECTION TWO: ACTIVITIES RELATED TO EVALUATION OF METHODS

OF CASH FLOW STATEMENT PREPARATION

PART ONE: Views about methods of cash flow statement preparation:

Questions in this part relate to your personal views about the methods of cash flow statement preparation companies use. Please indicate the extent to which you agree or disagree with the following statements regarding the methods of cash flow statement preparation in the firm.
(Please tick only one response per statement)

	The statement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1-1	Cash flow statement is a valid measure of cash generating ability					
1-2	Cash flow statement is a more meaningful number than net income from operations in evaluating the economic performance of a firm					
1-3	Cash flow statement should be shown in the annual report					
1-4	Cash flow statement should be included in the annual report on a comparative basis for the same number of years as the income statement					
1-5	The direct method of preparation should be used in cash flow statement					
1-6	Cash flow statement should be prepared according to international standard					
1-7	Cash flow statement should be classified as operating, investing, financing					
1-8	Cash flow statement is to provide relevant information about cash receipts and cash payments					
1-9	Cash flow statement provides information about the historical change in cash and cash equivalents					
1-10	Cash flow statement assists in internal control procedure					

PART TWO: Views about the purpose of preparing cash flow statement:

Questions in this part relate to your personal views about the purpose of preparing cash flow statements in companies. Please indicate the extent to which you agree or disagree with the following statements regarding the purpose of preparing cash flow statements in the company. (Please tick only one response per statement):

	The statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
2-1	Cash flow statement provides information about liquidity					
2-2	Cash flow statement provides information about the quality of management					
2-3	Cash flow statement helps users to understand financial results in a better way					
2-4	Cash flow statement is used for internal purposes					
2-5	Cash flow statement is used for external purposes					
2-6	Cash flow statement is useful in evaluating the financial position of the company and comparing performance between companies					
2-7	Cash flow statement provides information not included in the income statement and the balance sheet					
2-8	Cash flow statement is useful for discovering any fraud in the net income statement					
2-9	The cash flow statement provides information about future cash flows					
2-10	Cash flow statement provides more disclosure					

PART THREE: Views about the effect cash flow information on investment Decisions:

Questions in this part relate to your personal views about the effect cash flow information on investment decisions in investment firms. Please indicate the extent to which you agree or disagree with the following statements regarding the effect cash flow information on investment decisions in investment firm. (Please tick only one response per statement):

	The statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
3-1	Cash flow statement meets the needs of decision makers					
3-2	Cash flow statement assists financial management in assessing the need for borrowing					
3-3	Cash flow statement provides sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability					
3-4	Cash flow statement assists financial management in assessing the need for expansion in investment activity and funding					
3-5	Cash flow statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period					

The researcher would like to take the opportunity to thank you for filling in the questionnaire. Also if you would like to receive a summary of the research result and finding. Please down your name and contact details. Thank you.

NameAddress.....

E-mail.....Phone Number.....

Appendix 5

Interviews Questions

The following questions were addressed during the interviews with officials at the Libyan investment company as they represent the investors.

a) Questions related to methods of cash flow statement Libyan companies use:

- 1- What is the method of cash flow statement preparation method employed?
- 2- Does the cash flow statement assist in the internal control procedure?
- 3- Is the cash flow statement prepared according to IAS 7?

b) Questions related to purpose of preparing cash flow statements in Libyan companies:

- 1- What is the advantage of preparing a cash flow statement?
- 2- Is the cash flow statement prepared for external or internal purposes?
- 3- Is the cash flow statement useful in the evaluation of the financial position?

c) Questions related to effect cash flow information on investment decisions of

Libyan investment firms:

- 1- What is the effect of cash flow information on funding decisions?
- 2- Is the cash flow statement useful in providing information to help decision makers?
- 3- Does the cash flow statement provide information useful for expansion in investment activity?

Appendix no 6
Significance test One way ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
cash flow statement is avalied measure of cash generating ability	Between Groups	4.461	3	1.487	1.542	.205
	Within Groups	169.733	176	.964		
	Total	174.194	179			
cash flow statement is a more meaningful number than net income from operations in evaluating the economic performance of a firm	Between Groups	3.311	3	1.104	1.864	.137
	Within Groups	104.216	176	.592		
	Total	107.528	179			
cash flow statement should be shown in the annual report	Between Groups	3.558	3	1.186	2.486	.062
	Within Groups	83.970	176	.477		
	Total	87.528	179			
cash flow statement should be included in the annual report on a comparative basis for the same number of years as the income statement	Between Groups	1.369	3	.456	.692	.558
	Within Groups	116.075	176	.660		
	Total	117.444	179			
the direct method of preparation should be used in cash flow statement	Between Groups	12.424	3	4.141	6.633	.000
	Within Groups	109.887	176	.624		
	Total	122.311	179			
cash flow statement shoud be prepared according to international standard	Between Groups	1.891	3	.630	1.175	.321
	Within Groups	94.437	176	.537		
	Total	96.328	179			
cash flow statement should be classified as operating, investing, financing	Between Groups	1.720	3	.573	1.500	.216
	Within Groups	67.280	176	.382		
	Total	69.000	179			
cash flow statement is to provide relevant information about cash receipts and cash payments	Between Groups	2.474	3	.825	1.657	.178
	Within Groups	87.588	176	.498		
	Total	90.061	179			
cash flow statement provides information about the historical change in cash and cash equivalents	Between Groups	2.471	3	.824	.991	.398
	Within Groups	146.256	176	.831		
	Total	148.728	179			
cash flow statement assists in internal control procedure	Between Groups	13.574	3	4.525	4.678	.004
	Within Groups	170.226	176	.967		
	Total	183.800	179			

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
cash flow statement provides information about liquidity	Between Groups	.906	3	.302	.582	.627
	Within Groups	91.294	176	.519		
	Total	92.200	179			
cash flow statement provides information about the quality of management	Between Groups	3.420	3	1.140	1.122	.341
	Within Groups	178.780	176	1.016		
	Total	182.200	179			
cash flow statement helps users to understand financial results in a better way	Between Groups	5.576	3	1.859	2.609	.053
	Within Groups	125.374	176	.712		
	Total	130.950	179			
cash flow statement is used for internal purposes	Between Groups	.140	3	.047	.055	.983
	Within Groups	149.610	176	.850		
	Total	149.750	179			
cash flow statement is used for external purposes	Between Groups	1.908	3	.636	.748	.525
	Within Groups	149.619	176	.850		
	Total	151.528	179			
cash flow statement is useful in evaluating the financial position of the company and comparing performance between companies	Between Groups	8.551	3	2.850	3.222	.024
	Within Groups	155.694	176	.885		
	Total	164.244	179			
cash flow statement provides information not included in the income statement and the balance sheet	Between Groups	.944	3	.315	.430	.731
	Within Groups	128.634	176	.731		
	Total	129.578	179			
cash flow statement is useful for discovering any fraud in the net income statement	Between Groups	2.246	3	.749	.799	.496
	Within Groups	164.954	176	.937		
	Total	167.200	179			
the cash flow statement provides information about future cash flows	Between Groups	11.578	3	3.859	3.044	.030
	Within Groups	223.150	176	1.268		
	Total	234.728	179			
cash flow statement provides more disclosure	Between Groups	1.805	3	.602	.720	.541
	Within Groups	146.995	176	.835		
	Total	148.800	179			

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
cash flow statement meets the needs of decision makers	Between Groups	4.721	3	1.574	1.649	.180
	Within Groups	168.006	176	.955		
	Total	172.728	179			
cash flow statement assists financial management in assessing the need for borrowing	Between Groups	.943	3	.314	.475	.700
	Within Groups	116.452	176	.662		
	Total	117.394	179			
cash flow statement provides sufficient disclosure to the company's management for evaluating its operations and trends of liquidity and profitability	Between Groups	5.735	3	1.912	2.087	.104
	Within Groups	161.243	176	.916		
	Total	166.978	179			
cash flow statement assists financial management in assessing the need for expansion in investment activity and funding	Between Groups	1.942	3	.647	.848	.470
	Within Groups	134.370	176	.763		
	Total	136.311	179			
cash flow statement assesses the effects on the company's financial position of both its cash and noncash investing and financing transactions during a period	Between Groups	7.353	3	2.451	3.095	.028
	Within Groups	139.375	176	.792		
	Total	146.728	179			

Appendix 7

Tukey's HSD (Honestly Significant Differences) Test:

cash flow statement is avalied measure of cash generating ability

Tukey HSD

		Subset for alpha = .05
type	N	1
service	40	3.4250
manufacturer	53	3.6792
agricultural	45	3.8222
commercial	42	3.8333
Sig.		.207

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement is a more meaningful number than net income from operations in evaluating the economic performance of a firm

Tukey HSD

		Subset for alpha = .05
type	N	1
service	40	3.4000
commercial	42	3.6667
agricultural	45	3.6667
manufacturer	53	3.7736
Sig.		.104

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement should be shown in the annual report

Tukey HSD

		Subset for alpha = .05
type	N	1
commercial	42	4.1905
agricultural	45	4.2444
manufacturer	53	4.4717
service	40	4.5250
Sig.		.106

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement should be included in the annual report on a comparative basis for the same number of years as the income statement

Tukey HSD

type	N	Subset for alpha = .05
		1
manufacturer	53	3.8491
commercial	42	3.8810
agricultural	45	4.0222
service	40	4.0500
Sig.		.648

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement should be prepared according to international standard

Tukey HSD

type	N	Subset for alpha = .05
		1
commercial	42	4.0000
manufacturer	53	4.1509
service	40	4.2000
agricultural	45	4.2889
Sig.		.249

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement should be classified as operating, investing, financing

Tukey HSD

type	N	Subset for alpha = .05
		1
commercial	42	4.0000
agricultural	45	4.1778
service	40	4.2000
manufacturer	53	4.2642
Sig.		.186

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement is to provide relevant information about cash receipts and cash payments

Tukey HSD

type	N	Subset for alpha = .05
		1
service	40	3.9500
agricultural	45	4.0889
manufacturer	53	4.1698
commercial	42	4.2857
Sig.		.115

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement provides information about the historical change in cash and cash equivalents

Tukey HSD

type	N	Subset for alpha = .05
		1
agricultural	45	3.3778
service	40	3.5250
manufacturer	53	3.5472
commercial	42	3.7143
Sig.		.306

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement assists in internal control procedure

Tukey HSD

type	N	Subset for alpha = .05	
		1	2
agricultural	45	3.0667	3.2143 3.7170
service	40	3.1000	
commercial	42	3.2143	
manufacturer	53		
Sig.		.894	.079

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement provides information about liquidity

Tukey HSD

		Subset for alpha = .05
type	N	1
service	40	4.0500
manufacturer	53	4.0566
commercial	42	4.0714
agricultural	45	4.2222
Sig.		.673

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement provides information about the quality of management

Tukey HSD

		Subset for alpha = .05
type	N	1
commercial	42	3.0714
service	40	3.1750
agricultural	45	3.2000
manufacturer	53	3.4340
Sig.		.329

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement helps users to understand financial results in a better way

Tukey HSD

		Subset for alpha = .05
type	N	1
service	40	3.2750
commercial	42	3.4048
agricultural	45	3.5778
manufacturer	53	3.7358
Sig.		.052

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement is used for internal purposes

Tukey HSD

type	N	Subset for alpha = .05
		1
manufacturer	53	3.3774
agricultural	45	3.4222
service	40	3.4250
commercial	42	3.4524
Sig.		.981

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement is used for external purposes

Tukey HSD

type	N	Subset for alpha = .05
		1
service	40	3.2000
commercial	42	3.3095
agricultural	45	3.4444
manufacturer	53	3.4528
Sig.		.568

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

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

Tukey HSD

type	N	Subset for alpha = .05	
		1	2
commercial	42	3.4048	
service	40	3.6500	3.6500
agricultural	45	3.9111	3.9111
manufacturer	53		3.9434
Sig.		.057	.457

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement provides information not inclded in the income statement and the balance sheet

Tukey HSD

type	N	Subset for alpha = .05
		1
agricultural	45	3.6889
manufacturer	53	3.8302
commercial	42	3.8571
service	40	3.8750
Sig.		.734

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement is useful for discovering any fraud in the net income statement

Tukey HSD

type	N	Subset for alpha = .05
		1
agricultural	45	3.4667
manufacturer	53	3.5283
commercial	42	3.7143
service	40	3.7250
Sig.		.590

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

the cash flow statement provides information about future cash flows

Tukey HSD

type	N	Subset for alpha = .05	
		1	2
service	40	3.0000	
commercial	42	3.0714	3.0714
agricultural	45	3.1556	3.1556
manufacturer	53		3.6226
Sig.		.915	.100

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement provides more disclosure

Tukey HSD

type	N	Subset for alpha = .05
		1
service	40	3.6500
commercial	42	3.7619
agricultural	45	3.8222
manufacturer	53	3.9245
Sig.		.491

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement meete the needs of decision makers

Tukey HSD

type	N	Subset for alpha = .05
		1
commercial	42	3.5714
service	40	3.6000
manufacturer	53	3.8868
agricultural	45	3.9333
Sig.		.303

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement assists financial management in assessing the need for borrowing

Tukey HSD

type	N	Subset for alpha = .05
		1
commercial	42	3.8095
manufacturer	53	3.8679
service	40	3.9500
agricultural	45	4.0000
Sig.		.687

Means for groups in homogeneous subsets are displayed.

a Uses Harmonic Mean Sample Size = 44.494.

b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement provides sufficient disclosure to the companys management for evaluating its operations and trends of liquidity and profitability

Tukey HSD

type	N	Subset for alpha = .05
		1
commercial	42	3.1905
agricultural	45	3.5111
service	40	3.5250
manufacturer	53	3.6792
Sig.		.079

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

cash flow statement assists financial management in assessing the the need for expansion in investment activity and funding

Tukey HSD

type	N	Subset for alpha = .05
		1
agricultural	45	3.6667
commercial	42	3.7857
service	40	3.9000
manufacturer	53	3.9245
Sig.		.506

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

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

Tukey HSD

type	N	Subset for alpha = .05	
		1	2
service	40	3.1500	
commercial	42	3.3810	3.3810
agricultural	45	3.5333	3.5333
manufacturer	53		3.6981
Sig.		.180	.337

Means for groups in homogeneous subsets are displayed.

- a Uses Harmonic Mean Sample Size = 44.494.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.