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**THE CONTEMPORANEOUS MOVEMENT
BETWEEN CASH FLOW AND ACCRUALS-BASED
ACCOUNTING NUMBERS: THE NEW ZEALAND
EVIDENCE**

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fulfilment of the requirements
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ABSTRACT

Much attention has been focused on the *usefulness* of cash flow numbers as variables used in predicting the *future* cash flows of an entity. Paradoxically, little attention has been paid to how earnings move relative to cash flows over a sustained time period. This thesis addresses the issue and analyses the financial information from the annual reports of New Zealand listed companies for the 21 year period, 1971-1991. The evidence shows that there has been wide variation between earnings and the underlying cash flows during the 1980s. The two years following the 1987 stock market collapse appears to have had a reduced degree of variation between the earnings and cash flow variables. This suggests that post-crash the attention on financial reporting was influential in reducing the degree of variation between earnings and the underlying cash flows.

The study also examines the data scaled and with outliers removed. Scaling indicates that non-current accruals are more important for large companies while removal of outliers has little effect on the results.

Data on actual cash flows were analysed for the period 1989-1991. The results indicate that the variation between earnings and actual cash flows is quite high.

The contextual relationship between changes in each of the accounting variables (earnings and cash flows) and changes in macroeconomic indicators (gdp, money supply and inflation) was investigated. The evidence is that the association between changes in the macroeconomic indicators and changes in the accounting variables is not particularly strong and that changes in both money supply and inflation are of more importance than changes in gdp.

An industry by industry analysis provides evidence showing that for most industries there is little association between changes in the accounting variables and changes in economic indicators. There is evidence that some industries are more sensitive than others to macroeconomic changes. This evidence is enhanced when the data are partitioned in a way which allows low, medium and high changes in macroeconomic activity to be analyzed separately.

The conclusion of the study is that although the largest proportion of variation in accounting numbers is explained by factors other than changes in the economy there is sufficient evidence to suggest that for some industries the impact of changes in macroeconomic conditions is greater than for others.

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TABLE OF CONTENTS

| | Page |
|------------------|-----------------------------------------------------------------------------------------------------------------------|
| Chapter 1 | Overview of the research project |
| 1.1 | Introduction 1 |
| 1.2 | Aims and objectives of the research project 3 |
| 1.3 | Research methodology 4 |
| 1.3.1 | Literature-based study 5 |
| 1.3.2 | Empirical research 5 |
| 1.4 | Project constraints 7 |
| 1.5 | Outline of thesis 8 |
| 1.6 | Summary 11 |
| | |
| Chapter 2 | Survey of literature on the information content of cash flows and earnings |
| 2.1 | Introduction 12 |
| 2.2 | The usefulness of cash flow numbers 16 |
| 2.2.1 | Market-based studies 17 |
| 2.2.2 | Corporate failure prediction models 24 |
| 2.2.3 | Miscellaneous studies 36 |
| 2.3 | Studies of the association between earnings and cash flow numbers 59 |
| 2.4 | Summary 67 |
| | |
| Chapter 3 | An analysis of the association between earnings numbers and cash flow numbers for New Zealand listed companies |
| 3.1 | Introduction 70 |
| 3.2 | Data and definitions 74 |

| | | |
|----------------|----------|---------------------------------------------------------------------------------------------------------------|
| | | iv |
| | 3.3 | Analysis and results 75 |
| | 3.3.1 | Correlation of NPBT with CF1 76 |
| | 3.3.2 | Correlation of NPBT with CF2 77 |
| | 3.3.3 | Correlation of NPBT with CF1 scaled by total assets 82 |
| | 3.3.4 | Correlation of NPBT with CF2 scaled by total assets 84 |
| | 3.3.5 | Correlation of Changes in NPBT with Changes in CF1 AND CF2 87 |
| | 3.3.6 | Correlation of NPBT with Pooled Cash Flow 89 |
| | 3.4 | Summary 92 |
| Chapter | 4 | Macroeconomic changes in New Zealand during the study period |
| | 4.1 | Introduction 95 |
| | 4.2 | Salient features of the New Zealand economy 96 |
| | 4.2.1 | The "Think Big" era (1978-84) 99 |
| | 4.2.2 | The "Rogernomics" era (1984-1990) 102 |
| | 4.2.3 | The Stock Market crash and New Zealand's slow recovery 104 |
| | 4.3 | Summary 106 |
| Chapter | 5 | Contextuality of the relationship between earnings and underlying cash flows |
| | 5.1 | Introduction 108 |
| | 5.2 | Contextuality 111 |
| | 5.3 | Changes in macroeconomic variables and changes in accounting numbers: the comprehensive perspective 113 |
| | 5.3.1 | Sources of the macroeconomic variables 115 |
| | 5.3.2 | Measurement of the variables 115 |
| | 5.4 | The tests 117 |

| | | |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 5.5 | The results | 117 |
| 5.6 | An industry analysis of changes in macroeconomic variables and changes in accounting numbers | 119 |
| 5.6.1 | Changes in earnings and changes in macroeconomic indicators | 120 |
| 5.6.2 | Changes in cash flows (CF1) and changes in macroeconomic indicators | 122 |
| 5.6.3 | Changes in cash flows (CF2) and changes in macroeconomic indicators | 124 |
| 5.7 | The lagged relationship between changes in macroeconomic variables and changes in accounting numbers by industry | 125 |
| 5.7.1 | Changes in macroeconomic indicators correlated with lagged changes in earnings | 126 |
| 5.7.2 | Changes in macroeconomic indicators correlated with lagged changes in cash flows (CF1) | 127 |
| 5.7.3 | Changes in macroeconomic indicators correlated with lagged changes in cash flows (CF2) | 128 |
| 5.8 | The segregation of the data into low, medium and high changes in macroeconomic indicators | 129 |
| 5.8.1 | The association between changes in earnings with changes in macroeconomic indicators partitioned by magnitude of macroeconomic change | 130 |
| 5.8.2 | The association between changes in cash flows (CF1) and changes in macroeconomic indicators partitioned by magnitude of change in macroeconomic indicator | 133 |
| 5.8.3 | The association between changes in cash flows (CF2) and changes in macroeconomic indicators partitioned by magnitude of change in macroeconomic indicator | 135 |

| | | |
|-------------------|----------------------------------------------------------------------------------------------------------------------|-----|
| 5.9 | The relationship between earnings and cash flows and its association with changes in macroeconomic indicators | 138 |
| 5.9.1 | Changes in macroeconomic indicators correlated with changes in the association between earnings and cash flows (CF1) | 139 |
| 5.9.2 | Changes in macroeconomic indicators correlated with changes in the association between earnings and cash flows (CF2) | 139 |
| 5.10 | Summary | 140 |
| Chapter 6 | Summary and Conclusions | |
| 6.1 | Introduction | 145 |
| 6.2 | Background to the research study | 145 |
| 6.3 | Summary of the research study | 147 |
| 6.4 | Main findings of the research study | 152 |
| 6.4.1 | The degree of association between earnings and cash flows | 152 |
| 6.4.2 | The association between macroeconomic changes and changes in the accounting variables | 154 |
| 6.5 | Contribution to knowledge | 158 |
| 6.6 | Identification of future research areas | 161 |
| 6.7 | Concluding remarks | 162 |
| References | | 164 |

Appendices

| | | | Page |
|----------|---|---------------------------------------------------------------------------------|-------------|
| Appendix | A | Classification of cash flow studies | 174 |
| Appendix | B | Tables relating to the effect of macroeconomic changes | 178 |
| Appendix | C | Comparison of correlations of earnings and cash flows with and without outliers | 198 |

LIST OF TABLES

| | Page |
|---------------------------------------------------------------------------------------------------------------|-------------|
| 2.1 U.K. quoted manufacturing companies: weighted average profits and weighted average cash flow 1954 to 1976 | 51 |
| 3.1 Pooled correlations of NPBT and Cash Flows (CF1 and CF2) | 76 |
| 3.2 Year by year correlations of earnings and cash flows | 79 |
| 3.3 Comparison of statistical results between unscaled and scaled observations for variables NPBT and CF1 | 83 |
| 3.4 Comparison of statistical results between unscaled and scaled observations for variables NPBT and CF2 | 85 |
| 3.5 Year by year correlations of changes in Earnings with changes in cash flows | 88 |
| 3.6 Relationship between earnings and actual cash flows 1989-1991 | 90 |
| 3.7 Relationship between earnings and actual cash flows scaled by total assets | 92 |
| 4.1 Economic statistics for period 1971-1990 | 100 |
| A1 Market-based studies | 174 |
| A2 Failure prediction models | 176 |
| B1 Ranking and gdp per capita for selection of years from 1953-1989 | 178 |
| B2 The reorientation of economic policies since 1984: A synopsis | 179 |
| B3 Correlations of macroeconomic variables with accounting variables (Test 1) | 180 |
| B4 Change in earnings by change in macroeconomic indicators | 181 |
| B5 Change in cash flows (CF1) by change in macroeconomic indicators | 182 |
| B6 Change in cash flows (CF2) by change in macroeconomic indicators | 183 |
| B7 Change in earnings by lagged change in macroeconomic indicators | 184 |

| | | |
|-----|------------------------------------------------------------------------------------------------------------------------------------|-----|
| B8 | Change in cash flows (CF1) by lagged change in macroeconomic indicators | 185 |
| B9 | Change in cash flows (CF2) by lagged change in macroeconomic indicators | 186 |
| B10 | Change in earnings by change in macroeconomic indicators (high change) | 187 |
| B11 | Change in earnings by change in macroeconomic indicators (low change) | 188 |
| B12 | Change in earnings by change in macroeconomic indicators (medium change) | 189 |
| B13 | Change in cash flow (CF1) by change in macroeconomic indicators (high change) | 190 |
| B14 | Change in cash flow (CF1) by change in macroeconomic indicators (medium change) | 191 |
| B15 | Change in cash flow (CF1) by change in macroeconomic indicators (low change) | 192 |
| B16 | Change in cash flow (CF2) by change in macroeconomic indicators (high change) | 193 |
| B17 | Change in cash flow (CF2) by change in macroeconomic indicators (medium change) | 194 |
| B18 | Change in cash flow (CF2) by change in macroeconomic indicators (low change) | 195 |
| B19 | The change in the relationship between earnings and cash flows (CF1) and its relationship with changes in macroeconomic indicators | 196 |
| B20 | The change in the relationship between earnings and cash flows (CF2) and its relationship with changes in macroeconomic indicators | 197 |
| C1 | Comparison of correlations of earnings and cash flows with and without outliers | 198 |

LIST OF FIGURES

1.1 The contextual influences on the relationship between earnings and cash flows

7