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CASH COMPARISON PERIOD COMPARISON OF VALUES OF COMPANIES (APPLICATION STUDY IN THE EYES OF IRAQI INDUSTRIAL COMPANIES)

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ABSTRACT

The cash flow is determined by the balance of payments, which is equal to the balance of payments and the balance of the payments. The next hypothesis has been formulated: to compare cash flows, which may facilitate the valuation of the four companies involved. The model is represented by a group of Iraqi industrial companies, including Mansoor Pharmaceutical Company and Baghdad Beverage Company and Khazir Method of Pharmaceutical and Domestic Industry 2017. Find out more about the results from: Cash is a comparative measure that can be used to calculate the value of the stock market.

INTRODUCTION

With the increase in the size of companies, the financial position and income statement information became unable to give a true picture of the company's cash position, hence the need arose to have a list that gives this additional information, and helps users of the financial statements of shareholders, creditors, investors and others to make their decisions correctly. The list of cash flows to include this additional information that is not available in the income and financial position lists, meets the needs of users, and gives them a clear and objective answer to their questions, because it depends on the cash basis, and with the emergence of new economic changes characterized by

conditions of uncertainty and an increased need for the investor to create an investment climate. It is characterized by credibility, convenience, transparency and more flexibility to assist in making investment decisions. The importance of this list has increased, as the investor becomes interested in the company's cash operations such as buying and selling stocks and bonds in the financial markets, loan and refund operations, dividend payments, interest payments, and so on.

RESEARCH METHODOLOGY

The Problem Statement

The research problem lies in the fact that the traditional financial statements represented by the income statement as well as the balance sheet cannot meet the needs of decision-makers as required, in addition to the inability of these lists to provide the necessary information to assess the quality of profits. The research problem might be articulated through the subsequent question: Can measures Can cash flows help assess the quality of earnings?

The Significance of the Study

The significance of the research is highlighted by the importance of the cash flow list in providing the necessary indicators to measure the quality of companies' profits, in a way that helps improve the performance of these companies and in line with the variables accompanying the modern business environment.

Research Objectives

The research aims to deal with the theoretical framework of the statement of cash flows, with a focus on measures of cash flows that help in assessing the quality of profits, and among these measures the sufficiency of operating cash flows, the indicator of operational activity and return on assets from operating cash flow.

Research Hypothesis

The research is based on the basic assumption that: - (Measures of cash flows can help in assessing the quality of companies' profits).

Research Sample

The study sample represents of a group of Iraqi industrial companies, namely Al-Mansour Pharmaceutical Industries, Baghdad Soft Drinks Company, Khazar Road Company for Construction Materials and the National Furniture Industry Company for the years 2017 and 2018.

THE THEORETICAL FRAMEWORK

The Concept of the Cash Flow List

The list of cash flows is seen as an analytical statement of the movement of changes in cash that occurred in the company, whether by increase or decrease, and to know the reasons for these changes, meaning that this list depicts the total cash incoming transactions and the total cash outgoing transactions (Al Douri and Abu Zinad, 2006: 111) And there are those who view the cash flow list as a list that displays cash receipts, cash payments, and the net change in cash through operating activities, investment activities and financing activities, so that the cash balance corresponds to the beginning of the period and the end of the period. In a certain period of time, and often at the end of the fiscal year, it is a determination of the balance of cash inflows and outflows of the company during the conduct of operational operations, investment operations and financing operations in the company during the fiscal year (Nurnberg, 2006: 30)), and it was also known as a financial report that shows the individual who use financial statements, the cash flow sources and how it was used for a definite time (Essys, 2018: 2).

As for the importance of the cash flow statement, it appears through its effective role in providing information about the financial position of the company, and is considered useful in comparing changes in the company's financial position by shareholders as it is an important source for investors in making investment decisions (Epstein & Pava, 1992: 32-33), in addition to that the statement of cash flows is an important source for determining and knowing the sustainability and stability of the company or not in the short term. In some cases, an experienced financial analyst uses the list of cash flows to identify problems and obstacles that may face the unit that cannot be noticed or discovered in the statements. The other, as it is possible for the cash flow list to give a clear picture of the company's performance and continuity better than both the income statement and the balance sheet, and this is confirmed by (Zhao & El-Masry, 2013: 822) by reviewing previous studies that dealt with the informational content The cash flow statement, which concluded that most studies indicated that the cash flow statement with informative content is better than the informational content of the income statement, and that the cash flow statement reports On a set of matters, which are as follows: (Kieso, et.al., 2016: 1345)

1. The monetary implications of the operations of the operating unit during a certain period.
2. Investment Transactions.
3. Financing Transactions.
4. As the profit and loss statement contains answers to the questions, the net rise or reduction in cash over the period: - Where did the money come from during the period? During this time, what was the cash would use? And what was the improvement over the time in the cash balance?

The Components of the Cash Flow Statement

When preparing the statement of cash flows, companies disclose cash during the period, and they are classified according to their activities (operational, investment and financing) in an appropriate manner to provide appropriate information to the beneficiaries that helps in understanding and evaluating the

effects of those activities on the financial statements, and thus the list of cash flows works to provide information about the flows Cash to the users of the financial statements to find rules and foundations that help in determining the unit's ability to generate cash, identify its areas of use and timing, and know the degree of certainty of achieving it in the future. (Al-Sabban et al., 2013: 146). The classification of cash inflows and outflows can be clarified as follows:

First: Operational activities: It includes the monetary effects of the deals that enter into determining the net income, and includes all cash received and paid in cash, and operating activities are considered important activities in companies, as the net amounts that result from this activity are considered a basic indicator of the extent of financing the company's operations And resulting from direct and indirect taxes at the unit level (Al-Tamimi and Ali, 2018: 9), and there are a set of examples that result in the operational activity in the company: - (IPSASs, 2016: 226)

1. Consolidated amount of cash from various enterprises for the company and customs duty on sales and services, as well as additional cash flow from the breakdown, etc.
2. Cash accruals to finance unitary operations, operations, and other purposes.
3. The amount of cash paid to the employees.
4. Consolidated cash flows and outstanding payments from settlement of disputes and outstanding results from contracts.

Second: Investment activities: They are the cash flows resulting from the investment activities carried out by the company from the procure as well as sale of fixed assets as well as investments in debt and ownership of other companies (Nurnberg, 2006: 31)), and it includes all the company's activities related to the purchase or sale of assets and long-term investments that Not included in cash equivalents, and are disclosed separately, which results in the following investigation: (IPSASs, 2016: 228)

1. Providing a future service to the company that leads to the recognition of the asset in the financial reports.
2. Cash paid and received for the purchase and sale of buildings, lands, factories, equipment, intangible assets and other assets.
3. Cash paid for the sale and purchase of property rights and debt instruments for other units and shares in joint ventures.

Third: Financing activities: It includes activities related to the movement of loans and capital, whether by decrease or increase, and paid capital bonuses (Danko, et.al.2017: 141), which are all activities that lead to improving the company's ability to increase capital. It is disclosed in detail for all the cash received and paid resulting from financing activities, and the analysis of cash flows from financing activities is of special importance, as it is an important indicator to know the cash available through shares and loans, and through the analysis of the financing activity it is possible to know the extent of the company making distributions Profits for shareholders, and giving all users of the financial statements a comprehensive picture of the policies followed in financing its operations from equity or financing by borrowing, and thus these

activities will give a clear picture of the capital structure in the company, and examples of operations for these activities include the following: (IPSASs, 2016: 228)

1. All cash returns received from the issuance of unsecured debt securities, loans, bills, and other bonds.
2. Repayment of loans during the period.
3. Dividend distributions to shareholders during the period.
4. Cash paid amounts payable for finance lease.

2-3 Techniques of preparation of the cash balance statement and other factors to be put into account:

The statement of cash flows can be prepared according to two methods: the direct method and the indirect method (Garrison & Noreen, 2003). These two methods can be illustrated through the following:

First: The direct method: This method focuses on the main components of the entry and exit of the total cash flows connected to the operating actions of the business, as the seventh international standard (IAS7) recommended companies to follow the direct technique when preparing the statement of cash flows because it provides useful information when measuring cash flows as per The direct way of making the balance sheet is to determine the cash impact of each element of the income statement that explains the operating activities, and for the purpose of doing this, the cash basis should be used instead of the accrual basis used in preparing the income statement (Muhammad, 2013: 340).

Second: The indirect method: This method focuses on determining the net cash flows of operating activities by adding or deducting the elements that have no effect on cash, such as operating cash payments for previous or future years, and in order for us to prepare the cash flow statement, we must obtain information A group of information that is obtained from different sources so that a set of successive steps are followed to prepare the statement of cash flows in its final form, as well as highlighting the importance of information in the statement of cash flows and methods of preparing them, and this method in preparing the statement of cash flows is based on adjusting the net income that appears in the list Income after making some adjustments to it (Dahdouh, 2008: 217).

The concept of profit quality and the role of cash flow measures in evaluating them:

The quality of earnings refers to the ability of disclosed earnings to predict the future profits of the company, and it is an important criterion for assessing the repeatability, controllability, and deductibility of a company's profits. Accounting benefit efficiency is often seen as earnings that are characterised by the defining attributes of the desired accounting information for the users of the financial statements that meet the aim of transparency of the financial statements, since it offers the forecasting ability of accounting data to forecast profits in the upcoming months. (Richardson, 2003: 113).).

The statement of cash flows can be used to develop metrics that include a set of financial ratios that can be used as a guide in evaluating various aspects of activity, and from these measures measures to evaluate the quality of profits. These measures express the continuity of the company's cash flows more than the continuity of entitlement. Cash flows are information by which a distinction can be made between net income and net cash flow, given that net income is determined on the basis of accrual, while net cash flow is determined on the cash basis, and among the most important ratios that can be derived from the cash flow statement to serve the purposes of assessing the quality of profits The company during the accounting period: - (Matar, 2010: 162)

First: The operational cash flow adequacy ratio: This ratio is calculated according to the following equation:

$$\text{Operating cash flow adequacy ratio} = \frac{\text{Cash inflows from Operating activities}}{\text{basic cash needs}}$$

It is meant by basic cash needs with cash outflows for operating activities, debt burden payments, capital spending necessary to maintain production capacity and pay off debts due during the year, and this ratio expresses the company's ability to provide sufficient operational cash flows to cover the main cash needs, in particular the repayment Debt (Dergham, 2008: 53).

Second: Operational activity indicator: This indicator is calculated according to the following equation:

$$\text{Operating Activity Index} = \frac{\text{Net Operating Cash Flow}}{\text{Operating Profit Before interest and tax}}$$

This ratio shows the ability of the company's operating activities to generate operating cash flow during the accounting period.

Third: Return on assets from operational cash flow: It is calculated according to the following equation:

$$\text{Return on assets from operating cash flow} = \frac{\text{Net flow Operating cash}}{\text{total assets}}$$

This ratio indicates the ability of the company's assets to maintain the generation of operating cash flow during the accounting period (Matar, 2010: 163).

The third topic: the practical side of the research

Introductory Profile of Industrial Companies Research Sample

The research sample is represented by a group of Iraqi industrial companies, which are Al-Mansour Pharmaceutical Industries, Baghdad Soft Drinks Company, Khazar Road Company for Construction Materials and the National Furniture Industry Company for the years 2017 and 2018, and an introductory profile of these companies can be given, as follows:

1. Al-Mansour Pharmaceutical Industries Company: - The company was established in 1989, and the main objective of the company is to support the national economy in the fields of pharmaceutical and cosmetic industry, in

accordance with international standards and the country's economic goals and the production of various human medicines.

2. Baghdad Soft Drinks Company: The company was established in 1989, and signed an exclusive franchise contract with Pepsi, but the relationship ended in 1990 due to US sanctions and economic blockade, and in 2004 the franchising agreement was concluded again.

3. Tareeq Al-Khazar Construction Materials Company: - The company was established in 1989, and it is a company specialized in the production and trade of construction materials, real estate investments and general contracting, and it is a public shareholding company listed on the Iraq Stock Exchange since 2004.

4. The National Furniture Manufacturing Company: - The Company was established in 1986, and the company works in the field of manufacturing furniture and home furnishings, including carpets, upholstery and wall coverings to meet the customers' needs of these products.

Calculation of operating, investment and financing cash flows for companies
Research sample: a

For the purpose of calculating the operating, investment and financing cash flows of the companies, the research sample has been referred to the published data and financial statements of these companies in order to collect data on cash flows during the years 2017 and 2018, and the operating, investment and financing cash flows of Al-Mansour Pharmaceutical Industries, Baghdad Soft Drinks Company, and Tariq Company can be clarified. Al-Khazar Construction Materials and the National Furniture Industry Company for the year 2017, as shown in the following table:

Table (1) Operating, investment and financing cash flows for companies
Research Sample for the year 2017 (amounts in millions of dinars)

Total	Financing cash flows	Investment cash flow	Operating cash flows	Companies	rS
633	33	400	200	Al Mansour Pharmaceutical Industries	1
141928	44333	71094	26501	Baghdad for soft drinks	2
462	(887)	816	533	Khazir Road Construction Materials	3
1666	(320)	778	1208	National Furniture Industry	4

Source: Preparation of the researcher based on the data available in the research sample companies.

It is evident from the above table that Baghdad Soft Drinks Company achieved the highest operating, investment and financing cash flows during the year 2017, reaching 26501, 71,094 and 44,333 million dinars, respectively. Either

Al-Mansour Pharmaceutical Industries achieved the lowest operating and investment cash flows, which amounted to 200 and 400 million dinars respectively. The operating, investment and financing cash flows of the companies for the research sample for the year 2018 can be illustrated through the following table:

Table (2) Operating, investment and financing cash flows for companies, research sample for the year 2018 (amounts in millions of dinars)

Total	Financing cash flows	Investment cash flow	Operating cash flows	Companies	rS
468	(32)	(300)	800	Al Mansour Pharmaceutical Industries	1
88689	0	35893	52796	Baghdad for soft drinks	2
970	(226)	441	755	Khazir Road Construction Materials	3
702	(35)	513	224	National Furniture Industry	4

Source: Preparation of the researcher based on the data available in the research sample companies.

It is evident from the above table that the Baghdad Soft Drinks Company has achieved the highest operational and investment cash flow of 52796, 35893 million dinars, while it did not achieve any funding flow during this year, and it is also noticed that there is a discrepancy in the cash inflows and outflows of the companies in the research sample, and the reason is In that to the fluctuations in the performance of these companies during this period.

Evaluating the quality of Companies 'profits

Research Sample Using Cash Flow Measures

For the purpose of assessing the quality of corporate profits for the research sample using cash flow measures, three measures will be relied upon, as follows:

First: The operational cash flow adequacy ratio: This ratio expresses the company's ability to provide sufficient operational cash flows to cover the main cash needs, in particular the payment of its debts, and this ratio is calculated according to the following equation:

Operating cash flow adequacy ratio = Cash inflows from
Operating activities ÷ basic cash needs

The adequacy of operating cash flows for the research sample companies for the years 2017 and 2018 can be clarified, as shown in the following table:

Table (3) The adequacy of operating cash flows for the research sample companies

2018			2017			Compani es	rS
Operati ng cash flow adequac y ratio ⁵	Basic cash needs	Cash inflows from Operat ional activiti es	Operati ng cash flow adequac y ratio	Bas ic cas h nee ds	Cash inflows from Operatio nal activities		
0.800	1000	800	0.400	500	200	Al Mansour Pharmace utical Industries	1
1.886	2800 0	52796	0.883	300 00	26501	Baghdad for soft drinks	2
0.581	1300	755	0.761	700	533	Khazir Road Constructi on Materials	3
0.373	600	224	0.863	140 0	1208	National Furniture Industry	4

Source: Prepared by the researcher.

It is evident from the above table that the Baghdad Soft Drinks Company achieved the highest percentage in 2017, amounting to 0.883, and this company also achieved the highest percentage during 2018, which amounted to 1,886, which indicates the ability of this company to provide sufficient operating cash flows to cover the needs. Cash Principal, in particular, pays off its debt better than other companies.

Second: Operational Activity Index: This indicator shows the ability of operating activities to generate operating cash flow during the accounting period. This indicator is calculated according to the following equation:
 Operating Activity Index = Net Operating Cash Flow ÷ Operating Profit
 Before interest and tax

The operating activity index of the companies' research sample for the years 2017 and 2018 can be clarified, as shown in the following table:

Table (4) Index of operational activity of the research sample companies

2018			2017			Compa nies	rS
Oper ation al activi ty indic ator	Opera ting profit Before interest and tax	Net operati ng cash flow	Operatio nal activity indicator	Operat ing profit Before interest and tax	Net operati ng cash flow		
12.50 0	64	800	2.667	75	200	Al Mansou r Pharma ceutical Industri es	1
3.520	15000	52796	2.208	12000	26501	Baghda d for soft drinks	2
3.356	225	755	1.333	400	533	Khazir Road Constru ction Materia ls	3
1.806	124	224	2.013	600	1208	Nationa l Furnitu re Industr y	4

Source: Prepared by the researcher.

It is evident from the above table that Al-Mansour Pharmaceutical Industries achieved the highest index during 2017 of 2,667, and this company also achieved the highest index during 2018 of 12,500, which indicates the ability of the operating activities in this company to generate operational cash flow during the period Accounting better than other companies.

Third: Return on assets from operating cash flow: - This ratio shows the ability of the company's assets to maintain the generation of operating cash flow during the accounting period, and the return on assets from operating cash flow is calculated according to the following equation:

Return on assets from operating cash flow = Net flow
Operating cash ÷ total assets

The return on assets from the operating cash flow of companies can be clarified for the research sample for the years 2017 and 2018, as shown in the following table:

Table (5) Return on assets of operating cash flow research sample companies

2018			2017			Compani es	r S
Opera tional activit y indica tor	Operat ing profit Before interest and tax	Net operati ng cash flow	Opera tional activit y indica tor	Operati ng profit Before interest and tax	Net operati ng cash flow		
0.084	9504	800	0.025	8050	200	Al Mansour Pharmac eutical Industrie s	1
0.151	350255	52796	0.082	322213	26501	Baghdad for soft drinks	2
0.418	1807	755	0.297	1796	533	Khazir Road Construc tion Material s	3
0.080	2814	224	0.504	2397	1208	National Furnitur e Industry	4

Source: Prepared by the researcher.

It is noticed from the above table that the National Furniture Manufacturing Company achieved the highest percentage in 2017, amounting to 0.504, either during 2018 the Khazir Road Construction Materials Company achieved the highest percentage of 0.418, which indicates the ability of the assets of these two companies to maintain the generation of flow Operating cash during the accounting period.

Based on the above, it can be said that the statement of cash flows has helped in developing measures that include a set of financial ratios that can be used as a guide in evaluating various aspects of activity, especially with regard to assessing the quality of profits, as these measures express the extent of the continuity of the company's cash flows, thus The research hypothesis has been proven.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

1. The list of cash flows is from the lists that are prepared on the cash basis and provides information about the cash flow in and out to the company in detail.
2. The statement of cash flows is a good indication of the sincerity of the profits achieved by the company during a specific period of time.
3. Operating activities include the monetary effects of deals that are included in determining net income. Either investment activities are the flows resulting from the purchase and sale of fixed assets, while financing activities include the movement of loans and capital.
4. The adequacy of operating cash flows, activity index and return on assets from operating cash flow are among the most important ratios used to assess the quality of the company's profits.
5. The cash flow measures help in evaluating the quality of the companies' profits for the research sample. These measures express the continuity of the company's cash flow.

Recommendations

1. Paying attention to the cash flow statement and preparing it with the income and financial position lists, in order to help provide detailed information that can serve decision-makers.
2. Conducting seminars to increase investor awareness of the importance of the cash flow statement and its ability to give important measures to decision-makers, whether they are current or potential investors, financial analysts, or any of the entities that use financial companies' lists.
3. Conducting more research and studies looking at other variables derived from the statement of cash flows that affect the investor's decision.
4. The necessity of comparing cash flows from one year to another with an explanation of the impact of these flows on the quality of profits in order to evaluate and improve performance.
5. Relying on the data of this research in order to assess the quality of profits in other industrial companies, in a way that helps improve their overall performance.

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