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ROSS ROUNDTABLE

on

The Cash Flows Statement: How Useful is It?

Date: Monday, June 3, 2002 from 4:00 pm to 6:00 pm

Location: New York University
Leonard N. Stern School of Business
Abbe-Bogen Faculty Lounge, 11th floor (11-85)
44 West 4th Street
Kaufman Management Education Center
New York, N.Y. 10012-1118

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Roundtable Coordinator:
James Ohlson, *Professor, Department of Accounting*

Roundtable Theme

Traditional financial statement analysis presumes that the income statement (IS) is much more informative than the cash flows statement (CFS). Even so, the past few years it appears that analysts have elevated the status of the CFS, and some would argue that CFS should be accorded preeminence. Two reasons, at least, have been put forward in favor of such elevation of the CFS. First, the IS is subject to manipulation (or "earnings management") much more so than the CFS. Second, because "cash is king" in any event, there are no real compelling reasons why one should fixate on the accounting accruals: it makes more sense to view the IS as an auxiliary tool to evaluate the sustainability of cash flows rather than the other way around. Many recent cases illustrate this purported centrality of the CFS, e.g., Tyco, Worldcom, Computer Associates, and, of course, Enron. Some analysts have claimed that for these firms the CFS told the more accurate and complete story. Do such claims make sense at all, and do they apply generally? To deal with this issue one can usefully address the following:

- Is the CFS less sensitive then the IS when it comes to manipulation? Do firms all too often manipulate the CFS as well?
- Does GAAP provide a useful framework when firms prepare their CFS?
- Does the increased emphasis on the CFS merely reflect the failure of GAAP-based earnings measurement?
- Should the FASB pay more attention to the regulation of the CFS? How can the CFS be improved?
- Is it dangerous for analysts to rely primarily on CFS?

The Ross Roundtable provides a forum for "public opinion shapers" -- business writers, financial analysts, educators, corporate financial executives, regulators, etc. -- to discuss with policymakers important developments in capital markets and the financial world. To provide ample opportunity for participants to voice their opinions, the size of the Roundtable is limited.

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