

THE ANALYSIS AND INTERPRETATION OF FUNDS STATEMENTS

by

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This paper explores the potential role of the funds statement in financial analysis, and examines the various means by which this potential can be realized through meaningful analysis and interpretation.

INTRODUCTION

It has long been recognised that the funds statement (statement of sources and applications of funds) is potentially a very important, and extremely useful, part of the corporate financial reporting package which is available to financial analysts. However, the funds statement's rise to prominence as a financial report has not been without difficulties. First, analysis and interpretation of the funds statement has very often been confounded by its great diversity, both in method of preparation and in manner of presentation. Second, far too little attention has been paid to the methodology of its proper analysis and interpretation.

Examination of a leading American textbook on the analysis and interpretation of financial statements, published in 1978,¹ reveals scant attention to the funds statement. In a chapter giving an overview of financial statement analysis, comparative funds statements are presented by way of example but are not otherwise mentioned in the text, which concentrates on traditional analysis (common-size statements, financial ratio analysis, trend statements, etc.) of the balance sheet and profit and loss statement. Similar neglect of the funds statement is evident in a more recent (1981) Australasian textbook on the use of financial statements.²

Historically, why have we done so much with respect to the preparation and presentation of funds statements, and so little with respect to their utilization? The answer would appear to lie in accountants' and analysts' perceptions of the funds statement as an analytical tool in itself, rather than as another, equally-ranking financial statement to be subjected to the same discipline of analysis and interpretation as the balance sheet and profit and loss statement. For instance, the Australasian textbook just mentioned lists the funds statement as one of four "common techniques and tools for the analysis of financial statements." In this limited view, the funds statement

comprises little more than rearranged comparative balance sheet data. It is not considered to provide a fresh insight into the past and current policies and results of the business; it is merely considered to bring pre-existing data to the surface in, hopefully, a more understandable and usable form. Arnett³ has a much more positive view of the potential role of the funds statement in financial analysis:

"...funds statement analyses and interpretations will (1) indicate certain problem areas *sooner and more clearly* than traditional (analyses), and (2) *add knowledge* about a firm's activities which can be utilized in conjunction with knowledge gained from income statements and balance sheets in order to understand the total activities of a firm and how they interrelate." (emphasis added)

It is the purpose of this paper to explore the potential of the funds statement alluded to in this quotation, and to examine the various means by which the potential can be realized through meaningful analysis and interpretation.

OBJECTIVES

A useful beginning point is to briefly review the objectives of the funds statement, in order to have a clear idea of what it seeks to report on; and the objectives of its analysis and interpretation, in order to know what can be expected from it, what information can be sought, what questions answered, etc. The general objectives of the funds statement can be stated as follows:

1. To summarize the investing and financing transactions of the business entity for the period;
2. To complement both the profit and loss statement and the balance sheet of the business entity; and
3. To report on the liquidity and/or solvency position of the business entity.

A recent official pronouncement on funds statements ties these objectives together in the following manner:

"A funds statement...should emphasize the effects of all transactions of the entity which relate to the financing of its business activities and the employment of its resources. By emphasizing these effects, the funds statement should provide users of financial statements with information which, when taken together with the other financial statements, would assist in the understanding of changes in financial position, financial flexibility (including debt payment capacity and liquidity), cash flows and investment expenditure programmes."⁴

While financial statements report on past events, analysis and interpretation of financial statements are oriented towards the future. Implicit in the use of financial statements by financial analysts is the belief that understanding the past is an essential precursor to forecasting the future. Of course, the past is not an infallible guide to the future, and the analyst must be ever alert for changes in fundamental conditions which would invalidate predictions made on the basis of past results. Financial statement analysis does not add to the information available to the analyst from the basic statement. Rather, it seeks to bring information to the surface in a more easily digestible form. Once information is revealed clearly by analysis, interpretation determines the meaning of that information. Obviously, it is essential that the person carrying out these tasks has a sound knowledge of the principles and procedures used in the preparation of the financial statements in question, and an active awareness of their many limitations.

What then can careful analysis and interpretation of the funds statement provide the financial analyst? According to Horngren⁵

"By its very nature, the funds statement tends to compel thorough reading and intensive study. It helps give the reader insight into past and current financial and operating policies. Equipped with such information, the analyst is then better able to predict future working capital needs, plant and equipment expenditures, debt maturity management, capitalization structures and dividend policies."

This suggests a very wide potential for the funds statement. Funds statements have, at various times, been claimed to be capable of providing answers to questions as diverse as the following:

1. Where did the profits go?
2. To what extent is the business able to generate funds internally from operations?
3. What is the relationship between the amount provided by new external financing and that provided from internal sources?
4. What is the relationship between the amount provided by new equity financing and that provided through debt?
5. How much finance was contributed from short-term sources towards the acquisition of long-term assets?
6. What happened to the proceeds from the sale of plant and equipment which took place during the period?
7. What use was made of the additional cash (and/or other assets) received from the issue of additional common stock during the period?
8. What became of the proceeds obtained from the issue of additional debt during the period?
9. How was the increase in working capital which took place during the period financed?
10. How is it that there was an increase in net current assets when the corporation incurred a net loss in the period?
11. Is a permanent increase in working capital indicated?
12. Has an increase in working capital been accomplished through impairment of important working assets such as securities formerly held for business purposes?
13. Has the increase in working capital been financed through borrowings or internally by the retention of earnings?
14. What has been the effect of plant expansion upon the corporation's current position?
15. Why must funds be borrowed to finance the purchase of new plant and equipment when the amount of funds required was exceeded by the cash flow generated in the period?
16. How was the expansion in plant and equipment which was undertaken during the period financed?
17. How was the retirement of debt which took place during the period achieved?
18. Why were the dividends which were paid not larger than they actually were?
19. How was it possible to distribute dividends in excess of current earnings, or in spite of the fact that a loss was incurred during the period?
20. What proportion of available funds was used to pay dividends?
21. What percentage of internally generated funds was used to pay dividends?

22. Has the dividend policy been detrimental to the business' working capital position?
23. Does an accompanying increase in long term debt indicate that current dividends were paid at the expense of future operations?

This list is long but by no means exhaustive of the possibilities.

If an accurate and complete picture of the firm's investment and financing patterns is to be obtained, it is necessary that funds statements extending back over a number of years be available. A statement which summarizes investment and financing fund flows over a number of periods will tend to even out distortions which may arise from year to year. For this reason, the National Accounting Association's (NAA) Statement No. 10 "Management Uses of the Statement of Changes in Financial Position" recommends the presentation of 5 year comparative and cumulative funds statements in annual reports.⁶

TRADITIONAL FINANCIAL ANALYSIS

The remainder of this paper will comprise a case study in which techniques of analysis and interpretation of funds statements will be demonstrated. The business on which the case study is based (to be referred to as Adnews Corporation) is a publicly-owned publishing (newspapers, magazines and books), broadcasting (radio and television) and printing conglomerate. It also produces continuous stationery and packaging, and earns income from investments (corporate and real estate). This corporation was chosen because, unlike

many, since 1978 it has complied with the NAA recommendation to publish 5 year comparative and cumulative funds statements. In Exhibit 1 Adnews Corporation's funds statements for the 6 years from 1977 to 1982 are presented. Funds data for years prior to 1977 have not been used because in that year the Corporation adopted equity accounting for its associated companies. However, it did not recast its published pre-1977 funds statements to reflect equity accounting principles and they are therefore prepared on a different basis from the later statements.

In this section of the paper it is proposed to briefly examine what traditional financial analysis of balance sheets and profit and loss statements would reveal about the performance and financial position of Adnews Corporation over the period of study. In subsequent sections the additional insights into the Corporation's affairs provided by analysis and interpretation of its funds statements will be considered.

EXHIBIT 2: SELECTED DATA FROM BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS
— ADNEWS CORPORATION

Description	1976	1977	1978	1979	1980	1981	1982
Revenue (\$'000)	74475	83219	95070	120733	144336	183452	222233
Interest Expense (\$'000)	799	546	563	1555	2211	5589	8042
Net Profit Before Tax (\$'000)	9317	12835	15385	12891	16336	19742	25398
Net Profit After Tax (\$'000)	6411	8868	9440	10682	10210	13023	16181
Cash and Accounts Receivable (\$'000)	16307	19188	18673	25179	22593	33707	39013
Current Assets (\$'000)	30664	35614	39375	48265	44614	63996	73040
Total Assets (\$'000)	71493	84244	93267	121044	119080	186442	248165
Current Liabilities (\$'000)	18663	20790	26545	35917	31751	81071	66577
Total Liabilities (\$'000)	23738	26623	30114	46030	39050	89336	120429
Shareholders' Equity (\$'000)	47755	57621	63153	75014	80030	97106	127736
Working Capital (\$'000)	11999	14824	12830	12348	12863	117075	6663
Number of Ordinary Shares Issued	248488.07	3095732	3095732	41981724	41981724	41981724	81363448

EXHIBIT 1: COMPARATIVE AND CUMULATIVE FUNDS STATEMENTS — ADNEWS CORPORATION
(All amounts \$'000)

Description	1977	1978	1979	1980	1981	1982	6 Year Cumulative
Funds generated from operations							
Consolidated profit before income tax	11280	15385	12891	16336	19742	25398	101032
Capital profits net of tax	85	(74)	294	385	813	23	1526
Changes not requiring funds —							
Depreciation	1715	2580	2810	3661	4034	5372	20172
Doubtful debts	(196)	(130)	(66)	74	49	159	(110)
Excess of provision for annual leave over leave taken	330	394	364	370	581	742	2781
Excess of provision for long service leave over leave taken	162	286	252	311	479	494	1984
Total funds from operations	13,276	18,441	16,545	21,137	25,698	32,108	127,585
Less funds to support operations							
Increase in receivables	4119	(492)	6556	(743)	9761	1618	19819
Increase in inventories	2607	942	6089	(1282)	6363	9003	15722
Payment of income tax	3168	5877	4348	5214	5427	10453	34487
NET FUNDS FROM OPERATIONS	3482	12114	(448)	18948	4187	19114	57557
Add funds generated from financial sources							
Increase in issued capital including premiums	3096	—	6429	—	—	20991	30516
Increase in long term debt	528	(1197)	5678	(3129)	207	43697	44784
Increase in short term debt and bank overdraft	(921)	5691	7492	(7422)	30342	(4668)	30514
Decrease in prepaid expenses	(212)	(3334)	3705	(217)	(1904)	(2838)	(4800)
Increase in minority interest in certain subsidiary companies	12	(1192)	25	32	43	53	(1027)
TOTAL FUNDS FROM FINANCIAL SOURCES	2503	(32)	23329	(10736)	28688	56235	99987
Total funds available	5985	12082	22881	8212	32835	75349	157544
Less funds invested and distributed							
Additions to property, plant and equipment	(6759)	4676	18726	3569	11687	18209	63626
Increase in investments	(16)	3014	1102	1724	2191	33558	61793
Payment of dividends	3248	(4314)	4561	5273	5273	27912	27912
Publishing rights acquired	—	—	—	—	8561	45	8806
TOTAL FUNDS INVESTED AND DISTRIBUTED	9961	12004	24389	10566	47632	57885	161637
Increase (decrease) in cash and equivalent	(3976)	28	(1508)	(2354)	(14797)	18264	(4293)

Selected data from the balance sheets and profit and loss statements of Adnews Corporation over the period of study are presented in Exhibit 2. Inspection of these data reveals that the period 1976-1982 was one of significant growth for Adnews Corporation. Revenues increased by 198 per cent with Total Assets increasing by 247 per cent. While some part of this asset growth was financed with equity capital (the number of issued shares trebled and Shareholders' Equity increased by 167 per cent), the use of debt finance increased significantly (Total Liabilities increased by 407 per cent over the period), especially in 1981 and 1982. This increased use of debt is reflected in Interest Expense increasing by a factor of 10 from 1976 to 1982. Notwithstanding this, Net Profit after Tax increased by 152 per cent. However, the rapid growth of the Corporation appears to have placed it in a strained liquidity position, especially in 1981 and 1982. Current Liabilities doubled over the two years, and the Corporation experienced a negative working capital position in 1981.

EXHIBIT 3: TRADITIONAL FINANCIAL RATIOS — ADNEWS CORPORATION

Type	Ratio	1977	1978	1979	1980	1981	1982	6 Year Average
Liquidity/ Solvency	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$ times	1.71	1.48	1.34	1.41	0.79	1.10	1.31
	$\frac{\text{Cash and Accounts Receivable}}{\text{Current Liabilities}}$ times	0.92	0.70	0.70	0.71	0.42	0.59	0.67
	$\frac{\text{Net Profit before Tax} + \text{Interest}}{\text{Interest}}$ times	2.45	2.83	.93	.84	4.5	4.2	13.2
Leverage	$\frac{\text{Non-Current Liabilities}}{\text{Total Assets}} \times 100\%$	6.9	3.8	8.4	6.1	4.4	27.8	8.6
	$\frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100\%$	31.6	32.3	38.0	32.8	47.9	48.5	38.5
Activity	$\frac{\text{Revenue}}{\text{Total Assets}}$ times per annum	0.99	1.02	1.00	1.21	0.98	0.90	1.02
Profitability	$\frac{\text{Net Profit After Tax}}{\text{Revenue}} \times 100\%$	10.7	9.9	8.8	7.1	7.1	6.5	8.4
	$\frac{\text{Net Profit After Tax}}{\text{Average Shareholders' Equity}} \times 100\%$	16.8	15.6	15.5	13.2	14.7	14.4	15.0
	$\frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$	10.5	10.1	8.8	8.6	7.0	6.5	8.6
Investment	Earnings Per Share cents	28.6	30.4	25.4	24.3	31.0	19.2	26.5
	Dividends Per Share cents	12.5	12.5	12.5	12.5	12.5	11.0	12.3
	$\frac{\text{Payment of Dividends}}{\text{Net Profit After Tax}} \times 100\%$	43.7	41.1	49.2	51.4	40.5	57.3	47.2

A selected number of traditional balance sheet and profit and loss statement financial ratios for Adnews Corporation over the period of study are presented in Exhibit 3. In terms of both Return on Equity and Return on Total Assets, Adnews Corporation experienced a relatively steady decline in profitability over the 6 years; and by 1982 there was still no sign of an upturn. The decline in both Net Return on Sales and the Asset Turnover Ratio over the period suggests that the decline in overall profitability was the result of both reduced margins and lower turnover. Despite this slide, Adnews Corporation managed to maintain its Earnings per share at a reasonably high level by historical standards until 1982, when it fell dramatically, largely as a result of a doubling in the number of shares on issue. Dividends per share was maintained at a steady 12.5¢ for each of the 5 years 1977-1981, but was finally reduced to 11¢ in 1982 to reflect the Corporation's worsening fortunes.

The leverage ratios reflect the marked increase in Adnews Corporation's use of debt financing in the years 1981 and 1982. It is clear from these ratios that the increase was initially (in 1981) in the use of short-term debt; but that this was followed in 1982 by an increase in longer-term debt, suggesting the possibility of refinancing of the short-term debt in the second year. The spread between Return on Equity and Return on Total Assets indicates a favourable leverage situation for the Corporation throughout the period. However, the Corporation's interest coverages fell dramatically to just over 4 in 1982; and, of course, the financial risk facing shareholders increased accordingly. The Corporation's worsening liquidity position is reflected in both its Current and Quick Ratios. The Current Ratio was well below 2 throughout the period and fell below 1 in 1981, recovering to just over 1 in 1982. A similar pattern was followed by the Quick Ratio, with its low of 0.42 also experienced in 1981 prior to a slight improvement in 1982.

FUNDS POSITION

In a widely-read paper published in the Harvard Business Review in 1975⁷ Professor Pearson Hunt pointed to two fallacies that investment analysts frequently employ and which, taken together, can lead to poor judgements:

1. The assumption that the earnings figure is the key number which indicates a corporation's financial strength; and
2. The assumption that the deficiencies of the earnings figure can be overcome by substituting "cash flow".

After pointing out why these assumptions are false, Professor Hunt advocated use of a piece of information which he considered to be more crucial to determining a corporation's strength than either earnings or cash flow: the "Funds Position". In his words:

"Why is the study of either earnings or (cash) flows too limited? The answer is this: There is an inevitable, inseparable relationship between a company's ability to produce funds from operations during a period and its need to prepare, by capital investments, to be equally or more productive in the next period of operations. The combination of the operating funds flow and the funds needed for capital expansion is the funds position. The funds position is the keystone of a company's financial structure. With it firmly in place, financial planners can correctly analyse the results of their company's operating and investment policies; it is the single figure that can safely support their financial planning."⁸

The superiority of the measure advocated was then demonstrated by showing how it could have been used to predict sooner the inevitability of the Consolidated Edison Company of New York's decision, in 1974, to discontinue dividends on its common stock — a decision which sent deep shock waves throughout the investment world.

The Funds Position of a business can be calculated by rearranging the information included in the business' funds statement. If this is done for a number of successive funds statements, a "funds profile" is obtained. A funds profile for the Adnews Corporation for the period 1977-82, prepared by rearranging the funds statements presented in Exhibit 1, is presented in Exhibit 4. The funds profile indicates that the Adnews Corporation's Funds Position was positive in only two years in the period of study; and that the 6 year cumulative funds position was minus \$76.4 million. While the Corporation's net funds flow from operations was positive in all but one year, and plus \$57.4 million over the whole

EXHIBIT 4: FUNDS PROFILE — ADNEWS CORPORATION
(All amounts \$'000)

Description	1977	1978	1979	1980	1981	1982	6 Year Cumulative
FUNDS							
Net funds from operations	3482	12114	(448)	18948	4147	19114	57357
Less Additions to property, plant and equipment	6759	4676	18726	3569	11687	18209	63626
	(3277)	7438	(19174)	15379	(7540)	905	(6269)
Less Increase in Investments	(16)	3014	1102	1724	21911	33558	61293
	(3261)	4424	(20276)	13655	(29451)	(32653)	(67562)
Less Publishing rights acquired	—	—	—	—	8761	45	8806
FUNDS POSITION	(3261)	4424	(20276)	13655	(38212)	(32698)	(76368)
FINANCING							
Payment of dividends	(3218)	(4314)	(4561)	(5273)	(5273)	(5273)	(27912)
Increase in issued capital including premium	3696	—	6429	—	—	20991	30516
Increase in long-term debt	528	(1197)	5678	(3129)	207	42697	44784
Increase in short-term debt and bank overdraft	(921)	5691	7492	(7422)	30342	(4668)	30514
Decrease in prepaid expenses	(212)	(3334)	3705	(217)	(1904)	(2838)	(4800)
Increase in minority interest in certain subsidiary companies	12	(1192)	25	32	43	53	(1027)
Decrease in cash and equivalent	3976	(78)	1508	2354	14797	(18264)	4293
TOTAL FINANCING	3261	(4424)	20276	(13655)	38212	32698	76368

period, additions to property, plant and equipment, and to investments in other companies, were of such a magnitude as to produce the largely negative funds profile. Clearly, internally generated funds were insufficient to sustain the rapid rate of growth experienced by the Corporation and it was necessary to resort to external sources of funds.

The situation was, of course, exacerbated by the Corporation continuing to pay a steady Dividend per Share throughout the period until 1982, when it was reduced somewhat. The total dividend payout of \$279 million, when added to the \$76.4 million funds position deficit, meant that \$104.3 million had to be raised by running down liquid reserves and by going to the capital market. It is apparent from the funds profile presented in Exhibit 4 that the funding deficit was met only partially (28 per cent) through new equity, and that the greatest part (72 per cent) was raised from debt sources. A significant proportion (nearly 40 per cent) of the debt raised was short-term in nature.

Overall, the experience of the Adnews Corporation, although not as serious as that of the Consolidated Edison Company of New York, certainly paralleled it. In both corporations, rapid expansion of assets resulted in negative Funds Positions, and the continued payment of cash dividends significantly increased the need for outside financing. In both corporations, predominant use was made of debt to meet this need, and much of the debt was short-term — suggesting that short-term liabilities were being used to fund long-term assets or the permanent reduction of assets in the form of cash dividends. The lesson for the Adnews Corporation from the Consolidated Edison experience, and the potential role of the "Funds Position" in teaching this lesson, are obvious.

FUNDS STATEMENT RATIOS

As is the case with the other primary financial statements, definitive answers to financial analysts' questions, such as those mentioned earlier, will often not be

obtainable from a casual inspection of funds statements. Keys are needed to unlock the information buried in them. In fact, financial ratios, which are meaningful relationships of certain items designed to uncover information about the firm not apparent on the face of the statements taken alone, and which is useful in making decisions about the firm, are required. While most analysts are fully aware of the traditional balance sheet and profit and loss statement ratios, few are aware of funds statement ratios. There are available to the analyst quite a number of ratios which can be calculated from funds statements, and some which link the funds statement with the balance sheet and profit and loss statement. These are not substitutes for the traditional ratios. Rather, they provide new insights other ratios may not provide, they add to the explanatory power of other ratios and, in some instances, they can reveal the financial situation sooner than traditional ratios.

The "Funds Position" discussed in the previous section of this paper is a "meaningful relationship of certain items designed to uncover information about the firm". However, this one interrelationship (funds from operations with new capital outlays) is insufficient to provide a full and complete picture of a business' affairs. Many other interrelationships, which can be captured in financial ratios, must be considered. This will be done in this section of the paper. The usual caveats about the use of financial ratios should, of course, be borne in mind:

1. Since they summarize large amounts of financial data into one figure, they must be used with care, and with a full understanding of the data on which they are based; and
2. Too much emphasis should not be placed on just one or two ratios. Rather, each ratio should be seen as contributing to the total picture of the business' affairs.

It is, in fact, possible to calculate hundreds of ratios from one set of financial statements: every item in each statement could be related to every other item in that statement and the other statements. However, the result would not necessarily be "meaningful" relationships; and it is likely that the analyst's view of the business would become obscured by excessive and unnecessary detail. In determining which funds statement ratios would be most useful, and worthwhile calculating, the general objectives of the funds statement presented earlier in this paper need to be borne in mind. Accordingly, Exhibit 5 presents selected financial ratios for Adnews Corporation, calculated from its funds statements for the period 1977-82, and their relationship to the three general objectives identified earlier. There is, of course, some overlap in that certain ratios are relevant to more than one of the objectives.

reveals that Adnews Corporation's Distributable Cash Flow per Share was only positive in two of the 6 years — 10¢/share in 1978 and 7¢/share in 1980. In the years 1977 to 1981, the actual dividend payout was 12.5¢/share, and this was dropped to 11¢/share in 1982. Clearly, in all years of the study dividends were paid in excess of the Corporation's sustainable ability to pay them.

Finally, ratios 14-17 principally relate to the third of the identified objectives of the funds statement: to report on the liquidity and/or solvency position of the business entity. Examination of these ratios serves to highlight the seriousness of the difficult liquidity position faced by the Corporation in 1981. Ratios 14 and 15 reveal that the Corporation experienced significant decreases in working capital (due to decreasing current assets and rapidly increasing current liabilities), and cash and its equivalent, in that year. Furthermore, according to ratio 17, the Corporation's current liabilities at year's end represented a staggering 20 years of that year's net funds flow from operations. Fortunately, the position improved in 1982 when the Corporation's short-term debt was refinanced with long-term debt and equity. However, for at least some part of 1981/82 the Corporation was clearly in a perilous liquidity position.

The funds statement financial ratios discussed above by no means exhaust the possibilities for the analyst. Enterprising analysts will very often devise ratios of their own to highlight particular points, or to suit the format of the financial statements being analysed. In so doing, they

will need to exercise considerable care when implying causality between observed events and ratio movements; and they will need to be careful in the interpretation of negative values for funds statement ratios which tend to appear more often than with traditional balance sheet and profit and loss statement ratios. Of course, the analytical value of funds statement ratios would be greatly enhanced by the availability of industry averages and the ability to perform inter-firm comparisons. Industry averages can be determined from the annual reports of competitors if they are publicly-owned corporations, but would be more difficult/costly to obtain otherwise. Furthermore, the lack of uniformity in funds statement preparation and presentation, notwithstanding official pronouncements on these matters, will continue to inhibit this type of analysis.

CONCLUSION

This paper has attempted to redress the relative neglect of the proper analysis and interpretation of funds statements in the literature of financial analysis. The potential role of the funds statement in financial analysis has been explored; and various means by which this potential can be realized have been examined and demonstrated. By so doing, it is hoped that more thought and effort in this direction will be stimulated; and that this will culminate in the funds statement being equally ranked with the balance sheet and the profit and loss statement in terms of its undoubted utility to financial analysts and those that they advise.

FOOTNOTES

1. Foster, G. (1978); *Financial Statement Analysis* (Englewood Cliffs, New Jersey: Prentice-Hall, Inc.); Ch. 2.
2. Popoff, B. and Cowan, T.K. (1981); *Analysis and Interpretation of Financial Statements* (Wellington, N.Z.: Butterworths).
3. Arnett, H.E. (1979); *Proposed Funds Statement for Managers and Investors* (New York: National Association of Accountants); p. 96.
4. Australian Accounting Research Foundation (1983); Statement of Accounting Standards AAS12 "Statement of Sources and Applications of Funds"; para. 4.
5. Horngren, C.T. (1956); "The Funds Statement and Its Use by Analysts"; *Journal of Accountancy*; v. 101, n. 1; January; p. 59.
6. National Association of Accountants (1978); Statement on Management Accounting Practice No. 10 "Management Uses of the Statement of Changes in Financial Position"; p. 10.
7. Pearson, H. (1975); "Funds Position: Keystone in Financial Planning"; *Harvard Business Review*; v. 53; May-June; pp. 106-115.
8. *Ibid.*, pp. 109-110.