

The Accounting Information Gap in the Tourism Industry and Its Reflection on the Decisions of Users of Financial Reports

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This research aims to analyse the gap between accounting information based on the elements of financial statements in the tourism industry for the tourist city of Mosul Dam, according to the accrual basis and the cash basis and its reflection on the decisions of users of financial reports and what this gap can create in fields that are used for managing unit profits. The research was applied to a tourist city company in the Mosul Dam which is listed on the Iraq Stock Exchange. The research reached a set of conclusions, the most important of which is that an accounting information gap can emerge as a result of the basis of accounting measurement work and the flexibility of its measurement standards. In light of the multiplicity of methods and alternatives to accounting measurement, and in light of the ambiguity of standards, management may generate the desire to choose accounting alternatives that maximise its benefit. The results of the evaluation of the profits of the tourist city company in the Mosul Dam indicated that there are statistical differences between the accrual basis ratios and the cash basis ratios, and these differences are expressed by the presence of a gap in the accounting information, within the limits of which the preparers, of the financial statements, act.

Key words: *Information gap, tourism industry, accrual basis, cash basis.*

Introduction

An accounting information gap can be viewed as a field or space that is free of a financial statements' ability to deliver messages and information to a user. The provision of information on the performance of economic units by measuring profits and their components is among the primary objectives of financial reporting. and despite the assurances of the bodies responsible for organizing and developing the accounting profession on the priority of accounting profits on an accrual basis compared to net cash flows as a measure of performance the accounting income on an accrual basis does not . It is considered sufficient to present an image that reflects the performance of the economic unit, due to the extent of the areas of personal appreciation in measuring delays and entitlements, which requires the utilisation of complementary and supportive information resulting from the application of the cash basis.

The numbers and results of the financial statements, particularly the accounting income numbers, are based on principles, norms, and restrictions that affect the benefit of the information in relation to various decisions. The weak awareness of the limits of this information makes it misleading or inappropriate for users at times, and the poor results that result from applying the accounting accrual basis that are based on the issuance of many personal judgments are a clear example of this, in addition to the poor accuracy of comparing accounting numbers of economic units due to the multiplicity of alternative procedures. The research problem can be expressed by pointing to a gap between the expectations of users of financial reports from the information on which decisions are made, and the actual results obtained, and this gap weakens the users' confidence in the indicators derived from these financial statements.

Conceptual Framework

The accrual basis of accounting requires recognition of economic events and the effects which ensue that can be measured and recorded when they occur, while the cash basis focuses on the timing of inflows or outflows (Kieso et. Al.: 2014: 106). However, The American Financial Accounting Standards Board (FASB) has defined financial statements as a fundamental picture that distinguishes financial reporting and an essential means of delivering financial information to parties outside the economic unit (FASB: 1984: 6).

The availability of information on net income and its components, which is measured by the concept of accrual, is often a better indicator of current operating performance than information on current receipts and cash payments. Nevertheless, the monetary effects of earning activities provide useful information that cannot be accessed directly from the income statement. The cash flows from operating activities are shown in the cash flow statement (Spiceland et al., 2013).

However, operating cash flow ratios play a pivotal role in evaluating the performance of economic units, as these ratios provide more clarity compared to financial ratios on an accrual basis (Zeller and Stanko: 1994: 51).

The Concept of Receivables in Measuring Income

Receivables are the non-cash component of profit, representing adjustments to cash flows to provide a measure of profit that is largely unaffected by the timing of receipts and cash payments (Mohammed, Flayyih, Mohammed & Abbood, 2019). The income statement attracts a lot of attention due to dependence on income values in measuring the success of operations of economic units for a specific period of time, and the importance of this income statement is to help users of financial reports predict future income of the economic unit, and ensure that economic resources are appropriately used (Al-Ali: 2017: 501). Financial accounting researchers generally agree that profit on an accrual basis provides a more accurate representation of current economic unit performance than cash flows alone (Beaver 1989; Dechow 1994; Cheng, Liu, and Schaefer 1996, Dechow, Kothari, and Watts 1998; Liu, Nissim, and Thomas 2002). Despite this, what receivables provide to management is the ability to exploit the reported profits in an opportunistic manner, as well as intentional manipulation by the administration. Furthermore, the receivables are subject to assessment risks because they are by their nature more uncertain than the operational cash flow, which leads to mismanagement of the receivables (Thomas: 2006: 1158 and Cheng). Some of the accounting literature indicates the existence of evidence that authorities seek to explain the assumptions, principles, and restrictions that allow them to employ the accounting treatments that they desire, and reveal motives related to financial reporting options and decisions that are expected to achieve the best interests through the so-called profit management process (Maines et.al: 2003: 76).

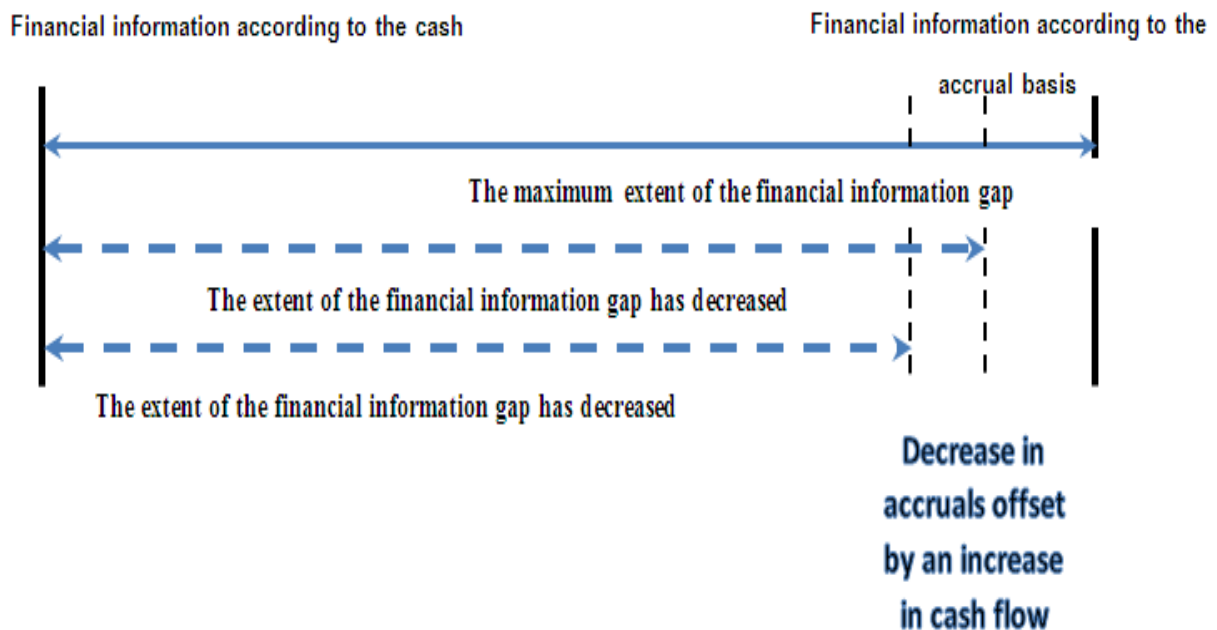
Interpretation of the Relationship between the Accounting Information Gap and Profit Management and its Quality

Profit quality is considered an important indicator when assessing the financial position of any economic unit as measured by receivables, and users of financial statements sometimes do not pay attention to the determinants of this measure (Demerjian: 2006 :). Profit quality is defined as the ability of the declared profits to predict future profits for an economic unit (177: 2015: Spiceland et al.). Wilson assumes that profit quality is "high" when there is a close correlation between net income and cash flows from operations, especially when this relationship lasts for several years (Wilson: 2016 :113). Profit management is defined as a practice by which managers attempt to estimate the time when revenues and expenses are recognised in the financial statements. This term has also been associated with the use of judgment in financial reporting with the intent to mislead investors about the basic economic performance of

economic units (Wilson: 2016: 113). Profit management is closely linked to the quality of profits, as there is a negative impact of profit management on the quality of profits when distorting information in a way that reduces the predictability of cash flows and future profits (Kieso et. al.: 2016: 155).

It is clear from this, according to researchers, that the profits in the event of fragmentation will include cash flows and receivables, and with careful consideration of the receivables, it is noted that they are based on the judgments and estimates of accountants and administration, and that these judgments and estimates are subjective. This means that the reason for the existence of the gap in the accounting information lies in the limited accountability capacity in providing information that contributes in an effective way to estimating the timing, size and amount of future cash flows.

Figure 1. The ranges of the accounting information gap in light of the differences between the accrual basis and the cash basis.



The interpretation of this result is evidence that accruals do not improve the quality of profits, which limits the benefit of the receivables to decision-making. The quality of the decisions vary as the accounting information gap widens, according to the variation in the accuracy of the assessment of the receivables that fall within the components of profits. As a result, this condition causes a difference between what is abstract (accounting income) and what is perceived by physical senses (cash). The researchers believe that the term 'accounting information gap' is more accurate in terms of describing this difference. The existence of this gap results in consequences and phenomena such as profit management, and it even expands to include in one of them a common term of audit known as the 'expectation gap'.

Determining the Accounting Information Gap in a Tourist City Company in the Mosul Dam, in the Light of Accrual Basis and the Cash Basis

This section presents an analysis of the basic and accrual indicators in the economic unit of the research sample (the tourist city in the Mosul Dam) in order to determine the accounting information gap, using annual financial reports from 2010-2017. This was selected due to a suitability with the objectives of the research.

The Disclosure of Financial Information in Accordance with the Company's Law and Accounting Rules

Cash flows are disclosed in the cash flow statement, and they are complementary to other financial statements according to the accounting rule (7) to prepare a cash flow statement as part of the annual financial statements. This is based on the decision of the accounting and Control Standards Board in the Republic of Iraq in its session held on 7/30/1996. This is to enhance the disclosure of financial information in accordance with international standards and to provide information on cash flows and cash liquidity and to narrow the information gap between traditional accrual accounting and the highlighting of cash flow activities.

Researchers believe that the accounting information gap should be identified and pursued as a result of the differences between the content of the information prepared according to the accrual basis, and the content of the information prepared according to the cash basis. Researchers suggest an analysis connecting information between cash basis and accrual basis as follows:

- a) Extract financial indicators for financial statement items according to the accrual basis.
- b) Extract financial indicators for financial statement items according to the cash basis.
- c) Determine the differences between the accrual basis and the cash basis.
- d) Define and analyse the accounting information gap on these differences.

Methodology

The importance of research in the preparation and application of an analytical approach is to know the determinants of accounting information according to concepts based on accruals, allocations, or estimates. This allows for an indication of the importance and role of integrating that information with information that is prepared according to the cash basis, what makes them complementary to each other and what contributes to rationalising the decisions of financial statement users.

A comparative analysis of the relationship of financial indicators was conducted based on the elements of financial statements extracted according to the accrual basis, with financial indicators based on the elements of financial statements extracted according to the cash basis. This was to determine the gap of any accounting information that can be used to manage the profits of the economic unit. Rationalising the decisions of users of financial reports through the integration of extracted financial indicators according to both principles. The study aimed to statistically test the differences between the accrual basis and the cash basis in order to assess the profits of the company (the research sample). This research is based on the following hypotheses:

- 1) The comparative analysis of the analytical indicators derived on the basis of accrual and cash basis helps in determining the accounting information gap, and analyses related elements of accruals (deferrals, estimates, and allocations) in a way that rationalises decisions.
- 2) There are no statistical differences between the accrual basis and the cash basis for evaluating the operating income index.
- 3) There are no significant statistical differences between the accrual basis and the cash basis for evaluating the return on the investment index.
- 4) There are no significant statistical differences between the basic accrual and cash basis for evaluating the return on a property right index.

Results

A Comparative Analysis of Financial Indicators under the Accrual and Cash Basis, and the Identification of the Accounting Information Gap

Operating Income Ratio

Profitability ratios with a higher value compared to previous periods indicate that the economic unit achieved an increase in sales and consequently an increase in profits. Table 1 shows the ratio of operating income to sales according to the accrual basis.

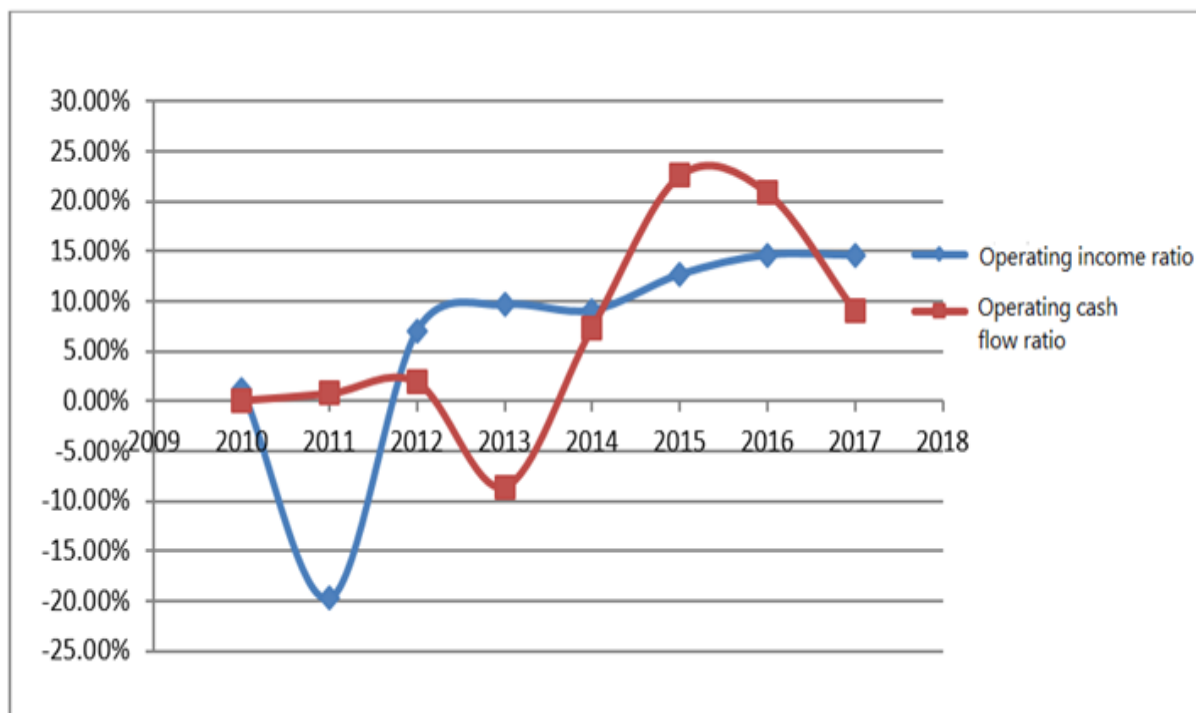
As the table shows, the percentage ranged between -19.73% and 14.61%. The highest increase in the percentage in 2016 was 14.61%, which was close to 2017, while the lowest percentage in 2011 was 19.73% and it was negative. It is inferred from Table 1 that the net sales volume was increasing during the years in the research sample company, but the result of fluctuating net operating income led to the appearance of volatile proportions as well.

Table 1: The ratio of operating income (amounts by millions of Iraqi dinars)

Indicators according to the accrual basis	Years							
	2010	2011	2012	2013	2014	2015	2016	2017
Net operating income (A)	2,003	38,093-	15,599	21,815	18,861	30,143	38,308	42,485
Net Sales (2)	163,839	193,062	221,475	226,604	208,049	238,431	262,240	291,478
Operating income ratio (1) ÷ (2)%	%1.22	%19.73 -	%7.04	%9.63	%9.07	%12.64	%14.61	%14.58

Figure 2 shows a chart of the accounting information gap between the accrual and cash basis in order to evaluate the operating income index.

Figure 2. Accounting information gap scheme between the accrual and cash basis for evaluating the operating income index



As shown in Figure 2, the operating income index curve, according to the accrual basis, tends toward a steep decline in 2010 and reached the lowest level at the end of 2011. It then started to rise in subsequent years with little fluctuation, while the operational cash flow indicator is oriented towards a slight increase for the years 2010 and 2011, then headed downward in 2012, reaching the lowest level at the end of that year. This indicates that there is an information gap between the two foundations, which reflects negatively on the decisions of users of financial

reports due to the decrease in the index according to the cash basis. 2014 was distinguished by the convergence of proportions according to the two bases. It is also noted that the operating cash flow index decreased in 2017 after it was close to the highest rate according to the accrual basis.

With respect to the ratio of return to investment, with reference to Table 1, the company achieved a net loss in 2011, but it is clear from Table 3 that the company achieved a net profit in the same year after adding other revenues to the operating income, which means that the amount of other income covered operating income, transfer expenses, and other expenses. The rate of return on investment ranged between 2.37% ± and 14.33%. The highest increase in the percentage was in 2016 at 14.33%, which was close to 2015 and 2017, while the lowest percentage in 2011 was 2.37%. It is clear from the table that the return on investment ratios fluctuate, despite the fact that the total assets were increasing during the years covered in the research sample, but as a result of fluctuating net income, the proportions also appeared to fluctuate.

Table 3: Ratio of Return to Investment (amounts by millions of Iraqi dinars)

Indicators according to the accrual basis	Years							
	2010	2011	2012	2013	2014	2015	2016	2017
Net comprehensive income (1)	7,485	3,639	19,518	24,043	22,011	30,137	37,781	42,485
Total Assets (2)	149,994	153,495	173,715	188,537	197,193	226,907	263,577	322,214
Return on investment% (1) ÷ (2)	4.99%	2.37%	11.24%	12.75%	11.16%	13.28%	14.33%	13.19%

The Return-To-Investment Ratio from the Operating Cash Flow

The return to investment ratio according to the cash basis ranged between -10.32% ± and 23.71%, reaching the highest increase in 2015 with a percentage of 23.71%, which was close to 2016. The lowest percentage in 2013 was -10.32%) and it was negative. It is clear from Table 4 that rates of return on investment according to the cash basis fluctuated as a result of fluctuating net operating cash flow.

Table 4: Return-to-investment ratio from operating cash flow

Indicators according to the cash basis	Year							
	2010	2011	2012	2013	2014	2015	2016	2017
Net Operating Cash Flow (1)	135	1,489	4,194	19,448 -	15,293	53,797	54,782	26,501
Total Assets (2)	149,994	153,495	173,715	188,537	197,193	226,907	263,577	322,214
Return-to-investment ratio from operating cash flow% (1) ÷ (2)	0.09%	0.97%	2.41%	% 10.32 -	7.76%	23.71%	20.78%	8.22%

Figure 3. A chart showing the accounting information gap between the accrual and cash basis for evaluating the return on investment index

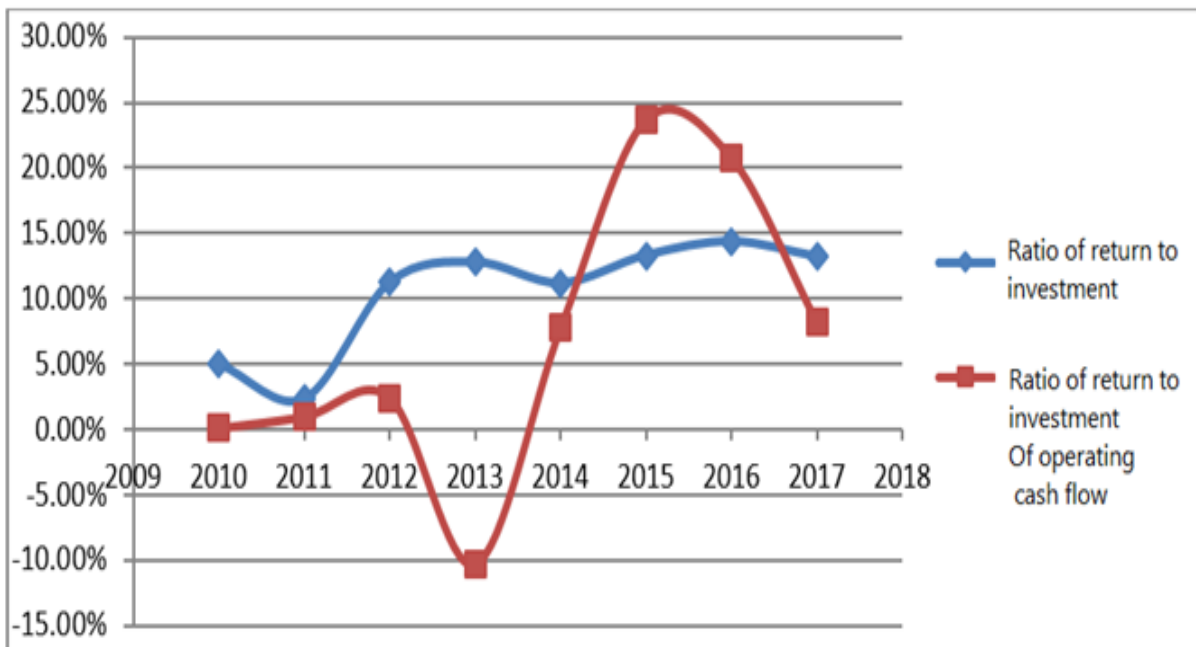


Figure 3 shows that the return to investment index curve, according to the accrual basis, tended to rise from 2011 to 2014, while the return to the investment curve, according to the cash basis, tended to decline in an analog direction for the same years, i.e. an accounting information gap between the two bases. This is considered a bad indicator, and it causes a negative reflection on the decisions of the users of financial reports. The return to investment index tended to decline, according to the accrual basis, in 2015 and 2016, which indicates that the index rises according to the cash basis and reflects positively on the decisions of the users of financial reports.

The Ratio of Return to Equity

The return to equity ratio, according to the accrual basis, ranged between 2.42% ± and 15.91%. The highest increase in the percentage in 2016 was 15.91%, while the lowest percentage was 2.42% in 2011. However, it is clear from the table that the total equity has been increasing during the years for the research sample, and that fluctuating rates of return to equity are the result of fluctuating net income.

Table 5: Ratio of Return to Equity (Amounts in millions of dinars)

Indicators according to the accrual basis	Year							
	2010	2011	2012	2013	2014	2015	2016	2017
Net Income (1)	7,485	3,639	19,518	24,043	22,011	30,137	37,781	42,485
The equity (2)	146,538	150,175	167,196	175,717	189,327	216,680	237,407	306,646
Return to equity ratio% (1) ÷ (2)	5.11%	2.42%	11.67%	13.68%	11.63%	13.91%	15.91%	13.85%

The Rate of Return to Equity

It is clear from Table 6 that the ratio of return to equity, according to the cash basis, ranged between -11.07% ± and 24.83%. The highest increase in the percentage was 24.83% in 2015, which was close to 2016, while the lowest percentage was -11.07% in 2013 and was negative. It is clear that the fluctuation of the return to equity ratio, according to the cash basis, is also attributable to the fluctuation of the net operating cash flow.

Table 6: Return on equity (amounts in millions of dinars)

Indicators according to the cash basis	Year							
	2010	2011	2012	2013	2014	2015	2016	2017
Net operating cash flow(A)	135	1,489	4,194	19,448 -	15,293	53,797	54,782	26,501
The equity (2)	146,538	150,175	167,196	175,717	189,327	216,680	237,407	306,646
Return to equity ratio% (1) ÷ (2)	0.09%	0.99%	2.51%	-11.07%	8.08%	24.83%	23.08%	8.64%

Figure 4. A chart showing the accounting information gap between the accrual and cash basis for evaluating the return on equity index

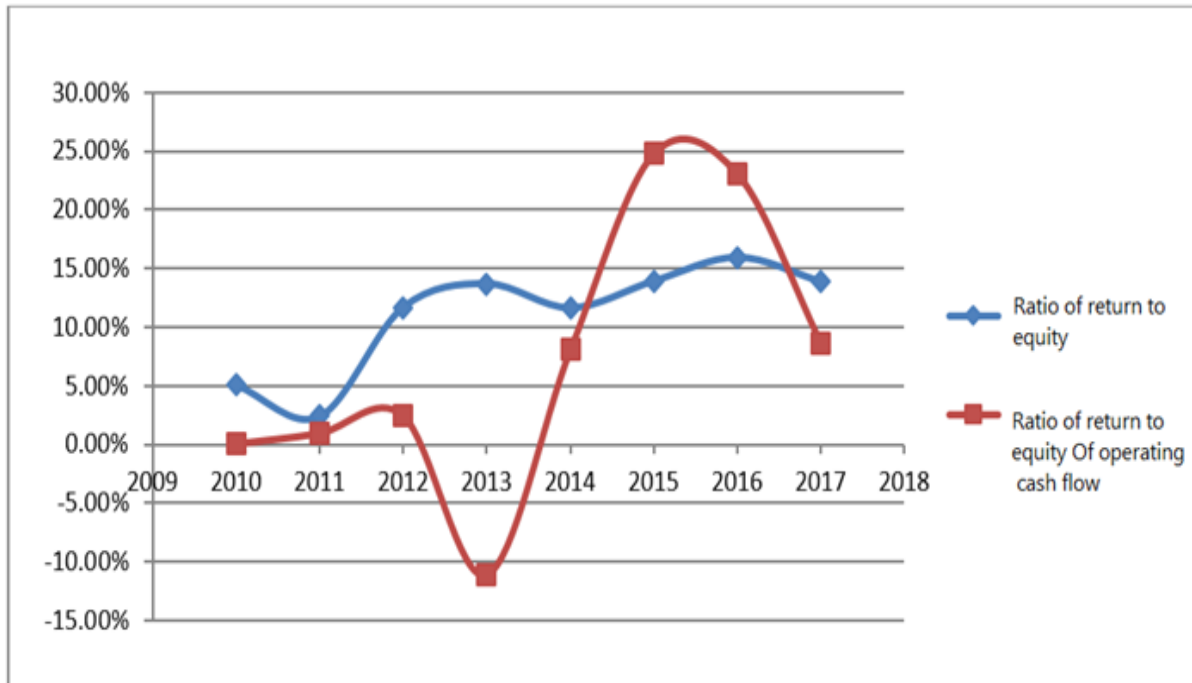


Figure 4 shows that the return on equity curve, according to the accrual basis, tended to rise from 2010 to 2014 and rose again in 2017, which indicates an accounting information gap between the two bases. While heading downward in 2015 and 2016, the return to equity index is bent, according to the cash basis. However, explanations can be strengthened by saying that 2016 was distinguished by high ratios, according to the accrual basis, while 2015 was distinguished by high ratios, according to the cash basis.

The Profit Quality Evaluation Ratio

This ratio reflects the results of operational activities, according to the accrual basis, while it also reflects the results of operational activities, according to the cash basis. This high percentage is evidence of the high quality of profits, and vice versa. The index of the operational activity decreased as it was negative by -89.15% in 2013, which is not a good sign for economic unity and shows the decline in cash.

Table 7 shows an increase in the quality of profits in 2015 and 2016 despite the high indicators, according to the accrual basis, in 2016, but as a result of the high amount of operating cash flows this year led to an increase in the quality of profits. As for 2017, despite the increase in net operating income and net sales for this year, 2017 did not receive a good operational activity index due to the low amount of operating cash flows. Considering the aforementioned, the quality of profits weakens, and the quality of decisions taken varies as the accounting

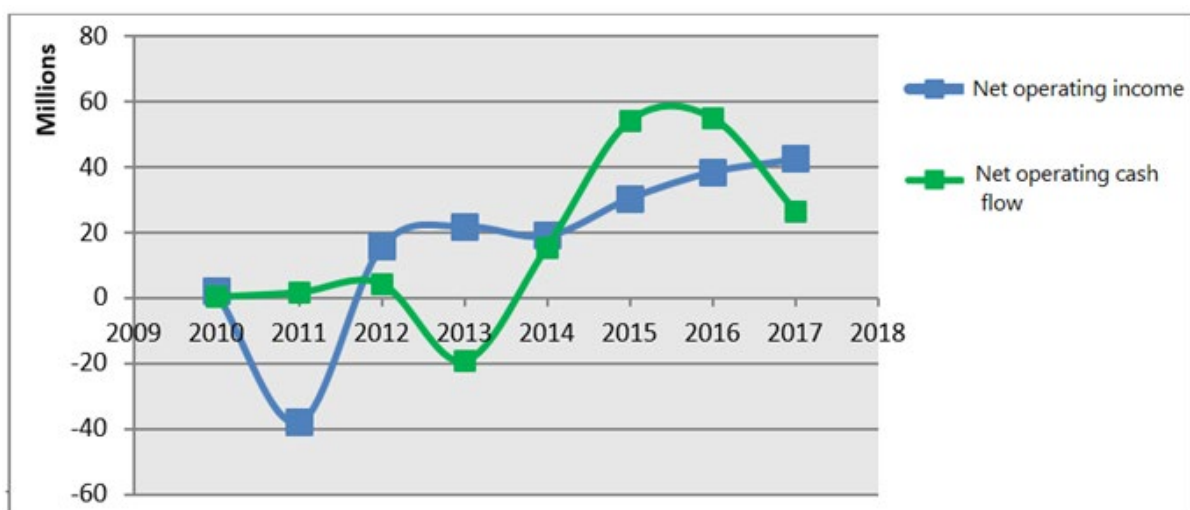
information gap expands, according to the varying accuracy in estimating the receivables that fall within the components of profits.

Table 7: Index of operational activity (amounts in millions of dinars)

Indicators	Year								
	2010	2011	2012	2013	2014	2015	2016	2017	
Net cash from operating activities (A)	135	1,489	4,194	19,448 -	15,293	53,797	54,782	26,501	
Net operating income (B)	2,003	38,093 -	15,599	21,815	18,861	30,143	38,308	42,485	
Operational activity index% (A) ÷ (B)	6.75%	-3.91%	26.89%	-89.15%	81.09%	178.47%	143.00%	62.38%	

As shown in figure 5, the net operating income curve tends to rise with the exception of 2011, 2015, and 2016, while the net operating cash flow curve tends to decline in an analogue direction due to the presence of accruals components. These interpretations can be strengthened by saying that the years 2015 and 2016 were marked by a decrease in the accounting information gap and a high quality of profits, while the size of the gap became clear and reflected on the decisions of financial reporting users for other years. This quantitative analysis shows the importance of determining cash flows in order to provide essential information that contributes to providing information for users, including shareholders, lenders, administration and other stakeholders. This type of information helps guide their decisions, as accounting numbers are not sufficient according to the accrual basis alone. Furthermore, analysis of operating activities provide information that effectively contributes to an understanding of the role that the receivables play, as well as contributing to reducing misleading and unclear financial information.

Figure 5. A chart showing the curves of operating cash and non-cash indicators



Statistical Analysis and Hypotheses Testing

There are no Significant Statistical Differences between the Accrual and Cash Basis for Evaluating the Operating Income Index

Table 8 shows that the average difference between the accrual and cash base for evaluating the operating income index is 0.62374, the calculated t-value is 0.1516 and the degree of significance is 0.8837 greater than 0.05. This means that the degree of significance is greater than the level of significance, therefore, the alternative hypothesis is rejected, and the null hypothesis is accepted. This shows that there are significant statistical differences between the accrual basis and cash basis for evaluating the operating income index.

Table 8: Statistical analysis of the average difference between the accrual and cash bases for evaluating the operating income index

Indicators	The average	standard deviation	Average difference	(t) value
Operating income index according to accrual basis	10.6543	6.75625	0.8837	0.1516
Operating income index according to the cash basis	11.3405	6.1325	0.62374	

There are no Significant Statistical Differences between the Accrual Basis and Cash Basis for Evaluating the Return to Investment Index

The results of the statistical data in Table 9 show that the average difference between the accrual and cash basis for evaluating the return to investment index is 3.71125, the calculated t-value was 1.0404 and the degree of significance was 0.3328 which is greater than the level of significance of 0.05. This means rejecting the alternative hypothesis and accepting the null hypothesis, which is that there are significant statistical differences between the accrual basis and cash basis for evaluating the return to investment index.

Table 9: Statistical analysis of the average difference between the accrual and cash bases for evaluating the return on investment index

Indicators	The average	standard deviation	Average difference	(t) value
Return on investment index according to the accrual basis	4.3437	41	10.41375	0.3328
Return on investment index according to the cash basis	11.18436	6.7025	3.71125	1.0404

There are no Significant Statistical Differences between the Accrual and Cash Basis for Evaluating the Return to an Equity Index

Based on the data in Table 10, it was found that the average difference between the accrual and cash basis for evaluating the return to equity index is 3.87875, the calculated t-value was 1.0175 and the degree of significance is 0.3428 which is greater than the level of significance of 0.05. This means rejecting the alternative hypothesis and accepting the null hypothesis, which is that there are statistical differences between the accrual and cash bases for evaluating the return to equity index.

Table 10: Statistical analysis of the average difference between the accrual and cash basis for evaluating the return to equity index

Indicators	The average	standard deviation	Average difference	(t) value
Return on equity index according to accrual basis	4.736354	11.0225		
	0.3428	1.0175	3.87875	
Return on equity index according to the cash basis	12.01617	7.14375		

Conclusion

Research shows that the information on the financial statements calculated on the basis of eligibility is not sufficient to rationalise the decisions, given the dependence of their numbers on the deferrals, allocations, and estimates, and most of these are determined mainly by personal estimates and personal opinions. An accounting information gap can result from the nature of accounting measurement, the flexibility of its measurement standards, and other reasons specific to managers. In light of the multiplicity of methods and alternatives to accounting measurement, and in light of the ambiguity of standards, management may generate a desire to choose accounting alternatives that maximise its utility. The use of financial indicators in accordance with the accrual and cash basis helps to identify and analyse the accounting information gap, which in turn contributes to rationalising the decisions of users of financial reports. The economic unit of the research sample (a company in the Mosul Dam) achieved a profit rate in 2017 that was close to 2016, according to the accrual basis, while the index according to the cash basis decreased significantly. This decrease caused the accounting information gap to be extended. The results of the economic unit earnings assessment report for the research sample indicated that there are statistical differences between the accrual basis ratios and the cash basis ratios. The differences between the values of the elements of the financial statements are expressed according to the accrual and cash basis for a gap in the accounting information that the preparers of the financial statements act within their limits.



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