

OPERATING CASH FLOW AND FINANCIAL PERFORMANCE OF LISTED CEMENT MANUFACTURING COMPANIES IN NIGERIA

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ABSTRACT

This study examines the influence of Operating Cash flow on financial performance of listed Cement Manufacturing companies in Nigeria. This study employs Ex-post facto research design. There were only three listed Cement Manufacturing companies in Nigeria and all three listed cement manufacturing companies were selected based on the availability. The study used secondary data collected from the Annual Reports, Accounts, and website of the listed Cement Manufacturing companies for the period of the study. Descriptive statistics using E-views software and inferential statistics were used to test variables collected for a period of five (5) years (2015-2019). The result of the study revealed that there is a positive but insignificant relationship between Cash Flow from Operating activities (CFO) and financial performance proxied by ROA evidenced by t -statistics = 2.880670, p -value (0.0121) while there is positive and significant relationship when financial performance was proxied by ROCE of the listed conglomerate companies in Nigeria evidenced by t -statistic = 3.341834, p -value (0.0048), p -value < 0.05%. The implication of this finding is that listed companies maintain balance between cash flows which in turn improves the firm performance and that there was a positive relationship between the operating cash flows profitability and the returns of all stakeholders. The study recommends that managements re-evaluate their operating cash flow management strategies in order to enable them operate more profitably as well as generate enough cash sufficient enough to meet their daily obligations as they fall for corporate financial performance.

Keywords: Cash flow, Financial Performance and Operating Cash Flow

INTRODUCTION

Background to the Study

The financial wellbeing of any operational business of manufacturing, producing or in servicing depends on cautious observation, monitoring and administration of the stream of cash within and outside that organization. Operating Cash Flow can provide the analyst and user of its information with the most important metric for evaluating the health of a company's core business operations. Assurance of the variables that have an influence on the company's financial performance or which may have a possible effect is known to contribute to the proper management of the choice making process. In this perspective, it becomes important to underline the possible effect of cash flows on firm performance it becomes vital to underline the conceivable influence of cash streams on firm execution.

In China, Kamran, Zhao & Ambreen (2017), shared that the smooth running of an organizations operations is heavily dependent on a firm's liquidity. Managers should therefore strive to maintain a high level liquidity in a firm to be able to reinvest in other assets, pay dividends to stockholders and remain with some cash within the firm. The optimal cash levels maintained by a firm is determined by its different policies regarding

investments, dividend payment, cash flow management, working capital requirements and capital structure. Cash flow is one of the financial tools used to gauge a firm's financial performance. It shows the firm's available cash after taking into consideration how much has been spent on development and as recurrent expenditure (Frank & James, 2014). A firm's shareholders' can use cash flows to assess a firm's financial soundness and strength. Investing cash flows in projects with a positive net present increases the value of a firm. It is worth noting that firms have two avenues of financing their activities, namely, internal and external sources of financing. Internal sources of financing include use of retained earnings whereas as external sources of financing include debt and equity (Jiang, Li, & Lin 2014).

Operating cash flow can be described as the cash generated from normal operations of a business. As part of the Cash Flow Statement the cash flows of the operating activities, investing activities, and financing activities are segregated to get a clear picture of the cash flows of all the company's activities. The significance of cash flows cannot be overemphasized primarily since the users of accounting data are especially fascinated by the cash of the company that is distributed in its financial statements (Narkabtee 2000). Agreeing to Bodie, Kane and Marcus, (2004), directors have to know the current financial position of the firm (execution and issue), proceeding with issues and control functions. In the setting of financial accounting, operating cash flow is money created from the day-to-day exercises of a trade, which is the flow of cash made accessible from the core operations of a trade substance. Net cash flow from operating activities speaks to the net increment or diminish in cash and cash identical coming about from operations appeared within the pay articulation in arriving at working benefit or operating profit.

Financial performance is a term used to describe the extent to which an entity is doing; based on set criteria. It is a measure of assessment of the firm's ability to utilize its assets in the generation of profits as well as wealth maximization. It is also a subjective measure of how well a firm can use assets from its primary mode (*investopedea.com*).

Amah, Micheal and Ihendinihu (2016) in Nigeria, investigated the relationship between cash flow and financial performance of listed banks in Nigeria. The study revealed that net profit (used as proxy for performance) had a significant relationship with cash flow from operating activities of the sampled banks, as indicated above, most of the findings of prior studies were contradictory though not in oil and gas firms. In accordance with Adelegan (2003), cash flows are more coordinate degree of liquidity and a contributing factor in corporate execution. Cash flow data helps its financial statement users in getting the important data concerning the use of assets of essentially the whole monetary assets over a given period (Ross, Wester, Field & Jordan, 2007). The nexus between cash flow and financial performance of firms in the manufacturing sector particularly the cement companies has become a zone of sharp intrigue to various analysts and numerous researchers. There are exceptionally small studies that have examined the relationship between operating cash flow and corporate financial performance of cement manufacturing companies in Nigeria at least to the best of the knowledge of the researcher, and these studies failed to apply operating cash flows, and on financial performance as proxy by the various variables.

Objective of the Study

This study is to look at the relationship between operating cash flow from Net operating activities and financial performance of cement manufacturing companies; ascertain the relationship between operating cash flow and financial performance of cement manufacturing companies; and determine if operating cash flow has an influence on the financial performance of cement manufacturing companies in Nigeria using Net cash flow from operating activities (NCOA), Return on Capital Employed (ROCE) and Return on Assets (ROA) of listed cement manufacturing companies in Nigeria. The contributions of this study potentially benefits listed cement manufacturing firms, other manufacturing companies, internal users, professionals, investors, future researchers, academicians, research students and government.

LITERATURE REVIEW

Conceptual Review

Statement of Cash Flows

Cash flow is the net amount of cash and cash-equivalents moving into (Cash inflow) and out (Cash Out-flow) of a business (Frank & James, 2014). Positive cash flow indicates that a firm's liquidity is increasing whereas

negative cash flows indicates that a firm's liquidity is decreasing. Cash flow statements provide its users with information regarding the source and use of the entire financial period. According to Hamza, Mutala and Antwi (2015), a high cash flow permits a firm to expand its operations, replace worn out assets, take advantage of opportunities existing in the market, and pay dividend to its shareholders. It is important to note that creditors are concerned about a firm's liquidity to settle their short-term maturing obligations. However, long-term investors such as bondholders are inquisitive about a firm's ability to produce sufficient cash stream within the medium-term and long-term to benefit related obligation.

Cash Flows Statement from Operating Activities

Cash flows from operating activities show whether a company's daily operations generated or depleted cash. Negative net cash flow from operating activities indicate that a firm's expenditure is more than its revenue. The reverse is true with positive net operating cash flows (Omag, 2016). A negative net cash flow situation will force a company to seek more capital from other sources such as loans or stock offerings. Debt financing raises a company's interest payments, slows growth, and puts the company at risk of insolvency. The issuance of shares, on the other hand, dilutes the ownership of the company (Frank & James, 2014). Though a growing manufacturer's operating cash flows may be negative at first due to inventory expansion and payment of short-term maturing liabilities, cash flows from operating activities must eventually become positive if the company is to survive. Equally, a firm may display positive cash flows for a given period or time due to decline in spending while sales increase or remain constant. However, if sales plummet, the firm is faced with liquidation or bankruptcy (Lan, 2012).

Cash receipts from the selling of goods and the providing of services are examples of cash flows from operating operations; Royalties, fees, commissions, and other sources of money; Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits; Cash payments to and on behalf of employees; Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities and Cash receipts and payments from contracts held for dealing or trading purposes.

Return on Assets

The return on assets formula, sometimes abbreviated as ROA, is a company's net income divided by its average of total assets. The return on assets formula appears to look at the flexibility of an organization to utilize its assets to realize an income Return on Equity. Return on assets (ROA) is one of the returns ratios used to gauge a firm's profitability. Return on assets measures the efficiency with which a firm is utilizing its investment in assets to generate profit. It measures profit earned in relation to a firm's investment in its total assets. The other return ratio is return on equity. This ratio measures the return on money invested into the firm by shareholders. It is calculated by dividing net income or profit after tax by shareholders' equity (Heikal, Khaddafi & Ummah, 2014).

Return on capital employed (ROCE)

Return on capital Employed (ROCE) could be a monetary proportion that can be utilized in surveying a company's benefit and capital productivity. In other words, this proportion can aid how well a company is creating benefits from its capital because it is utilized. The ROCE proportion is one of a few productivity proportions monetary directors, partners, and potential financial specialists may utilize when analyzing a company for venture. ROCE is a metric for analyzing profitability, and potentially comparing profitability levels across companies in terms of capital. There are two components required to calculate return on capital employed: earnings before interest and tax and capital employed.

Theoretical Review

This research is based on many theoretical frameworks that suggest operating cash flow has an impact on corporate performance, and the magnitude of that impact is determined by the company's operating policy. Several studies in the domain of cash flow and financial performance have been undertaken, and they were based on theories such as Agency Theory, Stakeholders Theory, Stewardship Theory and Single-person decision usefulness theory.

Jensen pioneered and developed agency theory (Jensen & Meckling, 1976). Managerial goals, according to Jensen (1986), are often not aligned with those of shareholders, and if managers have a lot of cash, they utilize

it to acquire personal gains rather than increasing the company's value. As a result, managers in the model have a goal of collecting assets in order to gain discretionary influence over the firm's investment decision, (Jensen & Meckling,1976). The agency theory predicts that organizations with larger free cash flow will have more cash on hand. The findings of Harford (1999) imply that firms with a lot of money try to buy other companies. These acquisitions are most likely diversifying, resulting in decreases in operational performance and destruction of shareholder value. According to Harford, Jarrad, Mansi, and Maxwell (2008), organizations with excess capital and inadequate governance make inefficient investments. As a result, agency theory looks at how management might act in the best interests of stockholders by lowering agency costs and improving financial performance, hence the theory emerged and presented a clear direction and financial performance and cash generated from operating activities is Agency cost.

Empirical Review

The examination of empirical studies reveals that researchers examined the impact of cash flow from operations on financial performance using a variety of sectors and variables.

Few researches find a beneficial influence, while others report a negative impact, and a few more studies report inconsequential connections.

Chibuikwe and Celestine (2022), examined the effect of cash flow management on financial performance: Evidence from the pharmaceutical industry in Nigeria. The ex post facto research design was adopted for the study with a population of ten (10) listed pharmaceutical companies in Nigeria as listed by the Nigerian Exchange Group in 2021. Data were retrieved from the annual reports of the selected listed pharmaceutical companies for the period 2011 to 2020. The study revealed a positive and insignificant effect of operating activities on liquidity, a positive and insignificant effect of investing activities on liquidity and it revealed a negative but significant effect of financing activities on the liquidity of listed pharmaceutical companies in Nigeria.

Ebimobowei, Awuji, and Anuogwo (2021) investigated the effect of cash flow accounting on the corporate financial performance of listed consumer goods companies in Nigeria for the period 2015 to 2019. The ex-post facto and correlational research design was utilized for the study. A population of twenty-six and a sample size of twenty-three firms were used in the study while descriptive, correlational and panel ordinary least squares were used for data analysis. The study revealed a positive and significant relationship between operating cash flow, financing cash flow and firm size to profit after tax of listed consumer goods manufacturing companies while investing activities and financial leverage revealed a negative and significant relationship.

Egwu, Orugun, and Adalakun (2021) investigated the exploration of cash flow management for enterprise's business performance in Nigeria. The survey research design was utilized for the study. Data gathered were analysed using the descriptive method and regression analysis. The study revealed that cash flow management influences the fulfilment of financial obligations and that cash flow management strategies influence the performance of enterprises in Abuja. The study concluded that cash flow is critical to the success of enterprises.

Nangih, Ofor and Onuorah (2020) investigated the relationship between cash flow management and the financial performance of quoted oil and gas firms in Nigeria. The judgmental research design was utilized while data were obtained from the annual reports of five selected listed firms for the period 2013-2018. The data thus collected were analysed with correlation and multiple regression techniques. The study revealed that cash flows from operating and investing cash flows had a negative and insignificant relationship with profitability while cash flow from financing activities had a positive and significant influence on firm performance in the oil and gas sector.

Kamran and Yeko (2019) examined the relationship between cash flow management and financial performance of Tororo cement, Eastern Uganda. The study adopted a survey and case study design with a sample population of 50 people as respondents chosen from Tororo cement company. The study revealed that accounts payables management affect organizational performance in Tororo cement and that the organization experiences cash deficits in its operations hinder financial performance.

Eton, Uwonda, Mwosi, Ogwel and Obote (2019) examined the relationship between cash management and financial performance of business firms in Northern Uganda. A cross-sectional study design was adopted and data was collected by the use of structured and closed-ended questionnaires. The study revealed that cash management has an insignificant effect on financial performance.

Zhao and Abreeen (2017) worked on free cash flow impact on firm's profitability in China. Data was analyzed using simple regression models. The study concluded that Free Cash flow enhance Firms Profitability but excess cashflow creates the agency problem.

Ogbeide and Akanji (2017) investigated the impact of cash flows on the financial performance of Nigerian insurance companies. The findings show that cash flow plays an important role in influencing the financial performance of the insurance industry. They suggested that frequent cash flow in the insurance industry produces negative cash flow and a financial catastrophe.

The relationship between cash flow and financial performance of listed banks in Nigeria was investigated by Amah, Micheal, and Ihendinihu (2016). The study's particular goals were to evaluate the relationship between a bank's cash flow from operations and profit after tax, as well as to analyze the relationship between cash flow from investing activities and profit after tax and ascertain the relationship between cash flow from financing activities and profit after tax of banks in Nigeria. The study used an ex post facto research design to sample four banks listed on the Nigerian Stock Exchange (NSE) during a nine-year period (2005-2013). The information gathered was analyzed statistically using correlation. The study found that cash flow from operations has a significant and strong association with the performance of the sampled banks, whereas cash flow from investment and financing activities has a negative and weak link with the performance of the sampled banks.

METHODOLOGY

This study employed Ex-post facto research design owing to the fact that the study utilizes the annual reports and accounts as the data utilized were already in use and in existence. There were only three listed Cement Manufacturing companies in Nigeria and all three listed cement manufacturing companies were selected based on their existence and availability. The study relied extensively on secondary data collected from the Annual Reports, Accounts, and website of the listed Cement Manufacturing companies for the period of the study. Descriptive statistics namely; mean, median, minimum, maximum and standard deviation were generated using the econometric view (E-views) software and inferential statistics such as R square, t-tests and F-tests were used to test the significance of the relationship between the variables under the study and establish the degree to which the predictor variables explain the variation in dependent variable collected from the annual reports and accounts of the listed cement manufacturing companies for a period of five (5) years 2015-2019. The choice of 2015 as base year is necessitated to avoid mixing of pre and post IFRS adoption, to improve presentation and consistency. It is the first IFRS reporting year-End.

Measurement of Variables

The model of the study established the relationship between the dependent variable of financial Performance proxy measure by Return on Assets (ROA) and Return on Capital Employed (ROCE) independent variable is Operating Cash proxy by Net Cash flow from Operating Activities

Table 1 Variable and their description

Variable	Description	Source	A Priori Expectation
Dependent Variable			
Return on Asset	This shows how efficient a company is at using its assets to generate profit	Senan, Noaman, Al-dalaien, & Al-Homaidi. (2021a)	
Return on Capital Employed	This is a pointer to how efficient a company uses its capital to generate profit	Senan et al. (2021a)	
Independent Variable			
Net Cashflow from Operating Activities	This show whether a company's daily operations generated or depleted cash	Omag, (2016)	+

Model Specifications

The model of the study established the relationship between the dependent variable of financial performance proxy by return on asset (ROA) and Return on Capital Employed (ROCE) and the independent variable of Operating Cash flow as net cash flow from operating activities (NCOA). To ascertain the influence of financing decision on the value of listed cement manufacturing companies in Nigeria, therefore, the model adapted from work of Chaleeda, M., Islam, A, Ahmad, T.S.T., & Ghazalat, A. N. M. 2019 will be used and specified below:

ROA Model 1

The model is specified on functional and stochastic form as follows:

$$ROA = f(NCOA, \mu) \text{ -----} 3.1$$

$$ROA_{it} = \beta_0 + \beta_1 LNCOA_{it} + \mu_{it} \text{ -----} 3.2$$

ROCE Model 2

$$ROCE = f(NCOA, \mu) \text{ -----} 3.3$$

$$ROCE_{it} = \beta_0 + \beta_1 LNCOA_{it} + \mu_{it} \text{ -----} 3.4$$

Where:

- ROA= Return on Asset
- ROCE = Return on Capital Employed
- NCOA= Net Cash flow form Operating Activities
- Log L = Natural logarithm of the variables
- β_0 = Constant parameter
- β_1 = Regression Coefficient of variables,
- U_{it} = Error terms

Note the subscription index “it”

i = i_{th} cross-sectional unit, $i = 1, \dots, N$

t = t_{th} time period, $t = 1, \dots, T$

RESULTS AND DISCUSSIONS

Table 2 Descriptive Statistic

	ROA	ROCE	NCOA
Mean	0.117570	-4.078570	4.724567
Median	0.090372	-3.726688	3.221478
Maximum	0.236273	-2.063913	20.69018
Minimum	-0.021461	-7.437527	-5.040361
Std. Dev.	0.082558	1.466985	6.038923
Observations	15	15	15
Cross sections	3	3	3

Source: *Researcher’s Computation, 2021*

As evidenced in the descriptive table 2 above, the mean value of ROA for the selected cement companies was found to be 0.118% and a standard deviation of 0.083%, minimum value of -0.021% and 0.236% as the maximum value. ROCE of the selected cement companies shows average value for the given period is -4.079% which ranges between minimum of -7.438% and maximum of -2.064%, and the dispersion around the mean as shown by the value of standard deviation is stated to be 1.467% while the average value of NCOA for the period is given as #4.725k which ranges between minimum value of -#5.040k and maximum value of #20.690k, and the dispersion around the mean as shown by the value of standard deviation is stated to be #6.039k.

Correlation Relationship between the variables

Table 3 shows that Pearson correlation technique was used to estimate the magnitude of the correlation coefficients of the study and the correlation matrix results generated for the variables of the study through the use of Eviews statistical package are presented in the table below

	ROA	ROCE	NCOA
ROA	1		
ROCE	0.1974	1	
NCOA	0.2045	0.281	1

Source: Researcher's Computation, 2021

The correlation coefficient between the NCOA and ROA was 20.5%, this connotes that there exists a low positive relationship between the variables. This implies that an increase in the net cash flow from operating activities will lead to an increase in profitability (ROA). Also, the correlation coefficient between the NCOA and ROCE was 28.1%, it means that there exists a low positive relationship between the variables. This implies that an increase in the net cash flow from operating activities will lead to an increase in profitability (ROCE)

Hypothesis One

H₀₁: Operating Cash flow has no significant effect on Return on Asset (ROA) of listed cement manufacturing companies in Nigeria.

Table 4: Using Panel least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NCOA	0.011545	0.004008	2.880670	0.0121
R-squared	0.992105	Mean dependent var		0.117570
Adjusted R-squared	0.926452	S.D. dependent var		0.082558

Source: Researcher's Computation, 2021

The results in Table 4 indicate an R squared of 0.992. This implies that the net cash flow from operating activities had high explanatory power of 99.2% on return on asset. The adjusted R-squared value of 0.926 shows that about 92.6% of the systematic variations in the dependent variable (ROA) was predicted by NCOA. This indicates that the operating cashflow had significant effects on the (ROA) of listed cement manufacturing companies in Nigeria. The NCOA (t-statistic =2.881, p-value (0.0121) as an independent variable to ROA of the listed cement manufacturing companies in Nigeria appears to have a positive and significant influence at 5% level. The findings, therefore, indicate that a #1 increase in NCOA would result to a significant 0.0115% increase in the ROA of the listed cement manufacturing companies in Nigeria. This implies that we should reject the null hypothesis (H₀₁: Operating Cashflow has no significant effect on Return on Asset (ROA) of listed cement manufacturing companies in Nigeria).

Hypothesis Two

H₀₂: Operating Cashflow has no significant effect on the Return of Capital Employed (ROCE) of listed cement manufacturing companies in Nigeria.

Table 5 Using Panel least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NCOA	0.0308312	0.114646	3.341834	0.0048

R-squared	0.44163170	Mean dependent var	4.078570
Adjusted R-squared	0.29435271	S.D. dependent var	1.466985

Source: Researcher's Computation, 2021

The results in Table 5 indicate an R squared of 0.442. This implies that the net cash flow from operating activities had high explanatory power of 44.2% on return on capital employed. The adjusted R-squared value of 0.294 shows that about 29.4% of the systematic variations in the dependent variable (ROCE) was predicted by NCOA. This indicates that the operating cashflow had significant effects on the (ROCE) of listed cement manufacturing companies in Nigeria. The NCOA (t-statistic =3.3418, p-value (0.0048) as an independent variable to ROCE of the listed cement manufacturing companies in Nigeria appears to have a positive and significant influence at 5% level. The findings, therefore, indicate that a #1 increase in NCOA would result to a significant 0.031% increase in the ROCE of the listed cement manufacturing companies in Nigeria. This implies that we should reject the null hypothesis (Ho₂: Operating Cashflow has no significant effect on Return on Capital Employed (ROCE) of listed cement manufacturing companies in Nigeria).

DISCUSSION OF FINDINGS

Relationship between Operating Cashflow and on Return on Asset (ROA)

The correlation matrix revealed that the correlation coefficient between the NCOA and ROA was 20.5%, this connotes that there exists a low positive relationship between the variables. This implies that an increase in the net cashflow from operating activities will lead to an increase in profitability (ROA). The test of hypothesis one reveals that operating cashflow has significant effect on Return on Asset (ROA) of listed cement manufacturing companies in Nigeria. The findings, therefore, indicate that a #1 increase in NCOA would result to a significant 0.0115% increase in the ROA of the listed cement manufacturing companies in Nigeria. The findings of hypothesis one is in accordance with Augustine and Jacob (2017), who reported that variables such as cash conversion, cash deposits are positively associated with return on assets while cash flow. Also, Ogbeide and Akanji (2017) revealed that cash flow plays a significant role in determining the insurance sector's financial performance. In similar vein, Ogbonnaya, Ekwe and Uzoma (2016) revealed that operating cash flow has a significant and strong positive relation with performance in the banking sector in Nigeria. Tu, Son and Khanh (2014), established that cash flows were negatively associated with ROA. However, the findings of hypothesis one is not in line with several authors (Chikashi, 2003; Ali, M., A. Alireza, A. & Jalal, 2013; Thanh & Nguyen, 2013; Zhou, H., S. Yang & M. Zhang, 2012; Watson, 2005 & Ashtiani, 2005), as the authors argued that cash flows and corporate performance have a significant negative relationship. The implication of this finding is that listed cement manufacturing companies maintains balance between cash flows which in turn improve the firm performance in respect to ROA. It is also observed that the listed manufacturing companies in Nigeria acts within its capacity as regards investments, dividend payment, cash flow management, working capital requirements and capital structure in such a way that financial performances are improved.

Relationship between Operating Cashflow and Return on Capital Employed (ROCE)

The correlation matrix revealed a low positive relationship between the variables. This implies that an increase in the net cash flow from operating activities will lead to an increase in profitability (ROCE). The test of hypothesis two reveals that operating cash flow has significant effect on Return on Capital Employed (ROCE) of listed cement manufacturing companies in Nigeria. The findings, therefore, indicate that a #1 increase in NCOA would result to a significant 0.031% increase in the ROCE of the listed cement manufacturing companies in Nigeria. The findings of hypothesis two are in line with Ghodrati and Abyak (2014), the authors revealed that there was significant relationship between the operating cash flow profitability and the returns of all stakeholders. However, the authors stated it happened by increasing profitability and cash flow of information asymmetry in proportion to their correlation with the economic efficiency of shareholders' returns. Similarly, Darabi, Adeli and Torkamani (2012) showed that there was a significant relationship between the operating cash flows, investment, and dividends.

CONCLUSION AND RECOMMENDATION

It was observed that the listed Cement manufacturing companies in Nigeria acts within its capacity regarding investments, dividend payment, cash flow management, working capital requirements and capital structure in such a way that financial performances are improved. Owing to the outcome, it was therefore recommended that firms should re-evaluate their operating cash flow management strategies in order to enable them operate more profitably as well as generate enough cash sufficient enough to meet their daily obligations as they fall due but should not be over-dependent upon only in analyzing same for corporate financial performance. Obviously, the performance of a company cannot be obtained from viewing the flows cash and cash equivalent alone. It is necessary to observe other component of the financial statements for possible predictive strength.

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