Money, capital and income

an accounting perspective
Prelude

This paper deals with three alternative income approach and the impact the three concepts may have on the company’s income statement and balance sheet. But first, the paper, will give you a short historical review of book keeping and its development up to the point where you can talk about accounting.

Second, the paper, will give you insights in “cash accounting”, “accrual accounting” and “anticipated accounting”. Just in the era we are now, it is accrual accounting which is a generally accepted principle for accounting but we shall now discuss things that in a theoretical viewpoint could be useful concepts for accounting. Some simple examples will be presented where we go from money to accruals and anticipation and then vice versa.

As a third step in this paper we will discuss money and values and we will show that the concepts in the long run stand for the same thing. Value is value only if it is a good prediction for future money and it is important to understand that the accounting is only an attempt to depict a reality. In a company, it is ultimately only the money to the owner that is the reality. If values and money not are equal before a company’s liquidation, values must be adjusted (written down or up) through the income statement. We will show this in an example. Last, in this paper, three articles are presented titled, Fair value or historical cost? - A choice between relevance and reliability, Finally, it is only money that has a real value - Ac-
cruals are estimates of money, so also an anticipated accounting and xxxxxxxxxxxxxx.

A historical review of book keeping

As the first step in this document it is obvious to demonstrate the evolution from a focus on the logic of book keeping up to the point where we no longer discuss these issues but instead focus on valuation issues and the way in which values calculated are to be presented in the market place. The development of these trends has been both bureaucratic and politicized where the struggle for power sometimes obscures other important issues.

The origin of accounting is of course not the United States. Instead, accounting probably started in Middle East, India and China and then also came to the Mediterranean. Double entry was gradually making inroads in Italy during 1300- and 1400 s and is documented from several venues in northern Italy. A complete system of double entry can be detected in the municipal records of Genoa in 1340. Even earlier than this can be shown traces of double book keeping systems in Giovanni Farolfi & Company, a company located in Florence at the year of 1299.

The first publication of double book keeping was realized by Luca Pacioli in Italy. Pacioli was a teacher and researcher in mathematics at the Universities of Perugia, Florence, Pisa and Bologna and finally also of the University of Rome, where he was called by Pope Leo X. This was the Renaissance era and Pacioli was one of its products.
Pacioli wrote the book that became known as the Summa de Aritmetica, Geometrica, Proportioni et Proportionalita. It was published in Venice in 1494, two years after Columbus landed in America and shortly after the first printing presses came into service in Venice. The book was really a thesis in mathematics, but also contained a section on double entry book keeping titled Particularis the Computis et Scripturis. Pacioli’s comments about book keeping are still relevant today. Sure, there have been changes in these more than 500 years, mainly dependent on changes in the conditions for accounting, but basically the system of the year of 1494 Pacioli has described is intact.

Accounting is so old that it was invented in the days when the value “zero” not had been invented or when mathematicians not was aware of negative values or minus sign. This contribute particular to the emergence of accounting columns. When columns were summarized and when a comparison was made between left-and right column you know if your accounting was correct. Where right and left equal or not? That was the question. When the minus sign was invented the accountant could replaced the left column with a positive value and the right hand column with a negative. Debit/left was therefore plus and credit/minus was right. This laid the foundation for the modern way of reporting, in which T-accounts not are necessary. Despite this fact should be noted that today’s computer accounting program, in practice often are designed according to the old ways of recording. Some claim that this has pedagogical reasons. Other complain that these archaic methods are still found in today’s book keeping systems although computer technology is now fully
equipped to meet the needs of the records of comparisons between groups of values and the need to distribute the transactions between the two dimensions in this two-tier system, i.e. question of what the company has at a given time and how the business’s financial performance is assessed over time.

1900s, could be argued, became the era of regulation and now the U.S. has taken command in order that accounting should be “owned” by a single stakeholder, the investors. The final step in this power struggle over the accounting regulation in the U.S. came through the expressed theory that high stock prices would contribute to an overall more positive perception of the economic situation and thereby contribute to increased consumption. High share prices would therefore "keep the wheels rolling ". You can also be discerned a connection between a subjective accounting in companies for the "general best". Values became more important than money for the regulation society.

These facts make it important to discuss what value is and even a deeper discussion on the accounting relationship between cash and accruals and the last stage in the development of a “anticipated income” (in some books called “comprehensive income). This paper does not discuss rules or regulations. The aim is to increase the understanding of accounting.
Fair value or historical cost?

A choice between relevance and reliability

This article argues that there are significant differences in perceptions on how the company must evaluate and disclose their assets. The differences are rooted in historical facts, where different eras and regions in the world had their own special problems to solve. The framework developed for accounting has therefore been contradictory. This is acutely the case for the principle of matching in relation to the principle of conservatism and the requirement for relevance in relation to the requirement of reliability. The theme of this article is that fair value is synonymous with a relevant accounting. The problem is relevant accounting can be creative and that at worst this can lead to the situation that real becomes unreal.

The way to recognize a company’s assets has fluctuated between the principle of historical cost and fair value accounting. Paton and Littleton pointed out in 1940 \(^1\) that:

"Recorded revenue was accepted as valid only on the basis of the objective evidence furnished by bona fide sales to independent parties".

This shows that once upon a time there was dissociation to fair value accounting and in particular to allow value changes affecting the profit (income). What was paid could be reported and no more than that. This was for a few years into the 1930s, an important part in a development where both accountants and accounting users realized that it was time to create a uniform accounting, which was to create

\(^1\) Paton, W.A. and A.C. Littleton. American Accounting Association, 1940
standards that all could accept and trust. Before that time there were not any significant regulation of accounting and the method to report varied. Paton and Littleton’s book from 1940 notice that a good accounting would be regulated and the method to account would be consistent. The presentation would primarily be reliable, which includes that it would be based on actual business events. The development, according to Paton and Littleton, was also in this direction during the 1930s, but they saw legislation as a means to influence the norms in direction to accounting which took account only to what actually happened (no accounting for value changes).

In 1935 the U.S. accounting profession took the mission to develop a standard for accounting, which was consistent with those views that now prevail. The first step was to establish a basic conceptual apparatus applicable for accounting and its nature and function, so-called concepts. This work has also contributed to the name "qualitative characteristics" and we have also received a framework for accounting. The basis of this framework was, therefore, the ideas of the 1930s.

The principle of valuation at historical acquisition cost had been so deeply rooted in the thinking that it has been perceived as a linchpin for all accounting ² and have been regarded as the basis for good accounting. Chambers ³ has described the arguments for valuation at historical acquisition cost by referring to the stewardship theory.

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² Evans, T.G., 2003  
³ Chambers, R. J., 1966
"Historical cost reports the property originally entrusted to a principal by another. In the stewardship relationship, the steward is responsible for the proper management of that property and must give an account of what he received and what he returned. Historical cost is consistent with that". 

One of the aspects of the stewardship theory is therefore the principle of valuation at historical acquisition cost. In addition, the valuation method is a very old and time-honored principle that it is a truism that one does not account in any other way, according to Chambers. Additional arguments in favor of this principle can be viewed in the context of the great stock market crash in the U.S. in 1929. The situation was that companies in the early 1900s take the liberty to account in favor for "current value accounting". Some researchers argue that this accounting method would have been a contributing factor to the incident. After the crash there was therefore yet another boost to the principle of valuation at historical acquisition cost. After all, during the early 1900s incipient criticism of the principal of historic cost came to explore new avenues. One argument against the method was that "timeliness" should be a more relevant basis of valuation than objectivity and verifiability criteria. It came in time to be considered as more important to take into account changes in business environment and market. They now wanted to simply capture the reality at each accounting point of the firm in the balance sheet.

The current framework, however, is contradictory. The basis for this

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4 Evans, T. G., 2003, s. 314
5 ibid
was the time of exposure to stress. Moonitz made in the early 1960s, renewed thoughts about the excellence to account to fair values \(^6\) and in 1972 the Wheatkommittén came with its conclusions about the benefits of fair value accounting. One year later, the True Blood report explain what the purpose of accounting would be. At this time the power of accounting also moved from the auditor organization American Institute of Certified Public Accounts (AICPA) to the more "market oriented" organization Financial Accounting Standards Board (FASB). In this environment, with partially conflicting interests the development of the framework would be a compromise. Undoubtedly, at that time, requirement of reliability again has to provide more space to accounting whose purpose was primarily to provide the stock market with relevant information for decision making. Accounting was now increasingly targeting a wider audience, mainly the stock market.

The U.S. framework has also become a model for international regulation in the IASB. This framework refers to conservatism, reliability and relevance. The IASB’s framework tells us that there are problems with applying the reliability and relevance at the same time and that there is a need to weigh up how much reliability and relevance you should use. Here is the collision between ancient and modern opinions on how accounting should be. Accounting can hardly be both reliable and relevant, when the reliable accounting involves looking backward while a relevant accounting is to assess future cash flows through the balance sheet and income statement.

\(^6\) Moonitz, M., 1961
The rejection of such accounting is also a rejection of the principle of realization.

In the United States, the regulators came in the 1960s to two important positions for the benefit of valuation at market value. These were formulated in ARS1, and ARS2 ARS3 and in A Statement of Basic Accounting Theory (ASOBAT) by Moonitz when he rejects the principle of valuation at historical acquisition cost for the benefit of market values. The view that the valuation at acquisition cost was no longer a useful measure to determine an asset's value became more frequent and that the market values could actually be calculated based on objective grounds.

In ASOBAT says that the concept of relevance is more important than verifiability and the valuation at market value is an expression of relevance. The accounting people in the United States were at that time not ripe to take this accounting policy, possibly because of the experience of the crash a few decades earlier. Therefore ASOBAT chose to state that companies should account for both historical cost and at market value, but the foundation was laid for a paradigm shift away from the valuation at historical acquisition cost and forward to accounting to market values.

In the 1990s, also has a new and different criticism to the principle of valuation at historical acquisition cost emerged. This criticism

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7 Moonitz, M., 1961
8 American Accounting Association, 1966
9 Evans, T.G., 2003
comes from shareholders / investors and has received the name "wealth effect". They take this name to show that stock prices are related to accounting and stock prices also will affect welfare through increased willingness to take decisions on increased consumption at higher stock prices. The share markets approach to accounting and valuation and accounting data in the community thus becomes more significant. Now in 2008, it is again fair value at issue, just as it was in the early 1900s. This is now in Sweden for financial instruments, land and forest, and the so-called investment properties held by publicly traded real estate companies.

Examination of the Swedish real estate companies’ financial statements shows that these claims that the principle of reliability (and realization) today by a redefinition of the concepts still is valid. Examples can be adduced to argue that external valuation of the property maintains the requirement of verification. The market valuation thus is regarded as a business event. So probably, it is not meant to be. Accounting is in accordance with generally accepted principles, reliable if a commercial event has taken place and it is great probability to be paid for it. The event is as they say to be "realized". It must also be "verified", i.e. there must be a business document in which one party in the corporate event is external and which shows what happens purely in terms of money.

It is, of course, good to have a reliable accounting, but the question arises of what use this information is. We will then issue to why it may be useful to have relevance. This is of course due to what we shall have the information. We shall consider that the accounting rules by listed property companies are created for the capital market
and in the first place for the stock market. The banking system certainly looks forward, but is mainly affected by conservatism. So is it not with the stock market. Stock market players require a relevant statement, i.e. a forward-looking accounting.

The transition from the old to the new means therefore that we supply reliability for the benefit of relevance. This is after all very understandable. The stock market looks forward. What is true is to assess what is available in money and when, not what happened in ancient times. Fair value accounting is relevant in this perspective. The valuation implies that as an ultimate consequence you must specify "all future net cash flows to present value" and let the value changes affect both the balance sheet and income statement. This is obviously not easy to do while maintaining objectivity.

It must in this context also be said that code IAS 40 takes into account this difficulty by having "the local price method" as the first option. This essentially means that you should compare the existing properties with other similar properties in the locality in the valuation of them. This method should therefore describe a sale price on the closing date. Cash flow is immediately and without the need for discounting. This seems easier and safer and works very well in densely populated areas, but less well in general. These problems raised have contributed to the general rule, i.e. "local-price method" has been at a disadvantage against the exemption rule which is "all future net cash flows to present value". Perhaps it could be argued that the exemption rule has become an addiction rather than an emergency. This problem may not have been considered or considered full when the rules were created at the IASB. In a summary
review of the investigations by the IASB made after year 2006-2007, I find no documents indicating that the discussion of fair value not is over yet, despite the fact that the new framework recently launched.

The basis of valuation is a hierarchy, or a score staircase, which it also is called. The staircase has three stages, where the top step relates to things that have a daily rating on a stock exchange, for example the listed shares. The second stage is about things that are valued on the basis of similar business events. An example would be a property that is valued according to local price method. The third step refers to situations where you have to determine a value by calculating the present value of future cash flows. It is this third that now is challenged in FASB.

Right now once again (in 2008) a debate is in the U.S. on the way to value assets and the accounting for them. The chairman and managing director of the American regulatory organization FASB, have comments on the fair value of an article from May 2008. He argues that the debate is primarily conducted by public opinion in the media and the fact that they criticize fair value accounting and the implications that such an accounting can get in "rainy days". A survey of U.S. investors, however, shows that 79 per cent of these are in favor of fair value accounting.

SFAS 157 in the U.S. (fair value measurement), which deals with fair value, establishes that fair value is the value of an asset or liability on the measurement day, i.e. the closing date (current value). For a

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10 Herz and MacDonald, 2008
property one can therefore say that the fair value corresponds to what it could be sold for at the closing date (what the acquisition cost is for a buyer at the closing date). For the Swedish side is that definition best describes what is known as “location-price method”. Sometimes it may be impossible to apply this approach "fully". In that case you are going down into a hierarchy of possible ways to value. There must be a market and something to compare with. If difficulties are large you should not use the fair value, according to Herz and MacDonald. The valuation may, instead of closing date become a valuation assessment of future cash flows discounted to the present value, and this see Herz and MacDonald as a gateway to the wordy values which may push certain truths into the future. The alternative to the valuation given in IAS 40 does not appear to be slightly preferred in the U.S., i.e. to present value as the sum of all net cash flows to present value.

FASB’s approach to fair value would therefore appear to be more conservative than the Anglo-Saxon approach, which the U.S. is a part of. U.S. advocates thus in fact a conservative approach. This is an approach that in fact is in compliance with what are described as the "continental accounting culture", to which several European countries listed.

What have Swedish real estate companies done in practice? These have, what I can see in the companies’ annual reports, had a tendency to too easily use cash flow model. In contrast, they have used the property’s acquisition value at initial recognition and also in the first
annual reports. Thus, companies are using cost as a proxy for the real value in these situations.

It also seems that the IASB is influenced by the American debate, or perhaps encouraged by the FASB to revise the rules on fair value. It is found in a number of IASB documents from October 2007 to July 2008 that there are situations where companies employ "fair value method" in a way that it was not intended. The IASB has for that reason intends to make further guidance on this issue. They distinguish between two different situations to the terms "entry" and "exit". According to entry an asset should be valued to its replacement cost. In practice, this is the acquisition cost on the closing date. Exit will be used when the property has been in the company for some years. Exit is synonymous with "all future net cash flows discounted to the present value." If this value is uncertain, you should view it only as supplementary information and instead use the acquisition cost as fair value.

In reviewing the investigations underway in the IASB regards to accounting at fair value, so it looks like you are about to move closer to the view that currently applies in the U.S., which to some extent also implies a return to the old, even if the IASB appears to be quite so positive to cash flow models. It will be interesting to see what is in progress. A tightening of the flexibility to value assets appears to be underway. Probably you would not bring the reliability of the relevance, but relevance can be said to have various degrees and it is the third step of the staircase hierarchy that is now challenged in the IASB. However, these ideas seem to be more visible in the FASB than they are in the IASB.
**Reading list**


IASB s hemsida: [http://www.iasb.org](http://www.iasb.org)

Moonitz, M. *Accounting Research Study nr 1, 2 och 3*, 1961.


Finally, it is only money that has a real value

Accruals are estimates of money, so also an anticipated accounting

The method to be used in the assessment of a cash flow analysis for decision-making in the market has not been treated in the literature more than superficial. The purpose of this article is to make a suggestion on how the cash flow statement can serve as a critical tool in assessing the objectivity of the accrual accounting. If accounting is not objective it is a subjective one. Accrual accounting or even more anticipation accounting is likely to contribute to subjective statement, i.e. to an unrealistic valuation. Needless to say, unrealistic values may not be recognized in the accounting system, but what you can do and what you do is not the same. Accounting in these days is very much influenced by internal and external stakeholders, especially the shareholders. The issue is now very topical after the advent of IAS 40 which allows accounting for fair value in real estate companies’ balance sheets and income statements, a statement that can be seen as an “anticipation statement” or a statement that compresses all future periods into one.

Introduction

The primary purpose of a company’s activities, in line with economic theory, is that the owner shall enrich himself with money from the company. The company must generate profits to satisfy the owners’ interests and those gains have, in turn, generates money if they have any real value. No one can live on a collection of numbers. Thus, the company reported profits are without any value as long as they are not accompanied by corresponding amount of money.
Only those figures which represent a cash flow is in de long run a relevant information about the company’s situation. These figures are all about things that actually happened and these things are reported in the company’s cash flow analysis. Only in retrospect, thus the reliability of accrual accounting will be determined.

An important issue, which often has been overlooked, is to what the company or its stakeholders should have such an analysis in a situation where the company’s balance sheet and income statement are the focus of analysis. This article is an attempt to provide a constructive response to this question. The article indicates a method for using cash flow analysis as a valuable complement to accrual accounting, not at least in the real estate holding investment properties.

The theoretical view

The situation is undoubtedly on the way to a company’s true value corresponds to the sum of all inflows and outflows over its entire lifetime. Canning (1929) gives expression to this phenomenon by stating:

“If one could approximate the whole future series of money outgoes and of money receipts of an enterprise: one could find, given a rate of discount, a direct capital value of that enterprise”

The balance sheet and income statement includes both accruals and cash. These cash is also a component of the historical cash flow statements, while accruals in the income statement are a forecast of
future inflows and outflows of money. In the long term cash flows and accruals will be equal. In the short term, however, the difference between profits and cash flows to be large. In the short term will be the accrual income statement to be important as a prediction of cash flow. Hendriksen & van Breda (1991) show this relationship in the following statement:

"Capital and income are two of the most basic concepts in accounting. Both are ultimately dependent on underlying cash flows. Although in the long run the income statement and cash flow statement are related to the same information, in the short run they represent different information and different concepts."

The cash flow should be considered as the actual fair value of an asset (or the whole company) over its entire life. The valuation of assets and liabilities is only an attempt to define the cash flow for the future. In the short term, net cash flows can differ much from the income statement when the value changes often affect the outcome at the very moment a change in value can be observed and reported. This situation is most valid in the publicly traded real estate companies’ consolidated financial statements.

The relationship between the balance sheet and income statement can be described as the sum of all income statements (or the sum of all profits) is the company’s value. It is this value that is described by the balance sheet as the difference between assets and liabilities (or the shareholders’ capital).
This relationship has been described by Fisher (1930) as:

"Capital value is income capitalized" and "Capital gains are merely capitalization of future income".

Hendriksen & van Breda (1991) also made it clear that a historical cash flow analysis including only a single period is of minor importance as an instrument for assessment of future cash flow compared to a cumulative cash flow over several historical periods.

“"A cash flow statement for a single period may have little significance in predicting future cash flows. A comparison of cash flows over several periods is necessary to begin to observe the behavior of recurring flows and to predict the likelihood and frequency of nonrecurring flows”

The more periods a cash flow statement includes the more it will conform to the accrual basis of accounting. Moonitz (1956) also argues for such an effect:

"An income statement covering fifty years would undoubtedly be acceptable as funds statement”

Moonitz makes it, with this remark, also clear that accumulated income in the long term is in line with the company’s net cash flow (fund statement is in this context seen as a surrogate for cash flow, working capital which is considered as "near money").

**Fair value or historical cost?**

For more than 80 year ago in the U.S. accounting was often based on fair values. The sharp economic slowdown in the U.S. in the late
1920s led to a more conservative approach to the valuation problem.

"As to unrealized gains on capital assets, there can be no justification for including these in current income. In general, such gains should not be recorded; but if special reasons seem to require it, the credits should be to capital surplus“ (Sanders, Hatfield and Moore, 1938)

This statement tell us that after the great stock market crash in 1929, there was a reluctance to disclose fair values on the balance sheet and / or income statement. This was valid particularly for those assets that did not have a present value on a stock exchange. If there were good reasons for fair value accounting, it should only be done in the balance sheet and not in the income statement. The aim appears to be to not burden the income statement with "non money" when such an approach could contribute to a subjective view of the future cash flow and is a manifestation of the strong position the principle of conservatism has in the U.S. in the 1930s.

The use of individual cash flow statements for one single period is, as said, not of much value for the market. Instead, they should be accumulated over long periods. The cash flow statement will then be a valuable complement to the accrual accounting and can then be used to control the relevance of accrual historical (feedback value).

An early example of the fact that cash flow was an important tool for control is carried out in the early 1970s, in the accounts of the WT Grant (Largay, in 1980) where it was possible to demonstrate
that an impending bankruptcy could be predicted by using cash flow analysis. Cash flow was not up to the values in the accrual accounting. This phenomenon was not noticed by the capital market until it was too late.

The purpose of presenting a cash flow statement is in accordance with IAS 7 (FAR SRS, 2010) that:

"Upplysningar om ett företags kassaflöde ger användare av finansiella rapporter ett underlag för att bedöma ett företags förmåga att skapa likvida medel och företagets behov av dessa likvida medel"

Information concerning a company’s cash flow provides users of financial statements a basis for the company’s ability to create cash. This statement is a very vague description what the purpose of a cash flow statement is and it provides no clarity in how a cash flow statement could be used as a critical instrument to assess the relevance of accrual accounting actually has in a given situation. Subjectivity can be well assessed only at the time property is sold. It can be observed at the time that sales values significantly different from the previous valuation. If the sale price is much lower or higher than the accounted price for the property it possibly be due to subjective accounting.

**Some technical issues**

The first sector of the cash flow statement has been given the name "cash flow from operating activities" and it shows what a company has earned in money. The sector describes the money that has passed through the income statement. In addition to cash flow
from operating activities there are also the two other sectors, cash flow from "investments" and cash flow from "financing". If we imagine the idea that the company ceases, then the balance sheet will be phased out.

Inflows and outflows of money because of this settlement will primarily be booked on the balance sheet and the differences that exist between the values of the balance sheet and the payments made will be booked in the income statement as "extraordinary gains" or "extraordinary losses". Any surplus cash will then be removed over the financial sector. When all these steps are completed, the sum of all income’s (the accrual income statements) through the years is equal to the sum of all cash flow operations. A firm’s total income’s through the years is thus equal to the final cash surplus.

**An empirical analysis of the relationship between reported income and cash flow**

This part of the article describes an empirical study (conducted by the author) of seven publicly traded real estate company’s quarterly reporting for 29 quarters from 2002 Q4 - 2009 Q4 with a comparison of cumulative reported income’s and cumulative cash flow from operating activities. The idea is, as stated earlier, that this type of analysis can serve as an additional ratio, especially in those firms having assets at fair value. Fair value accounting can be seen as forecasts of future cash flows while the historical cash flow statement shows the actual outcome. The study shows that the accumulated income for the whole period was total 40.196 billion crowns, while the cumula-
tive cash flow from operating activities for the same period was 27.863 billion crowns. The ratio between the two variables is 1.44 for Q4 2009.

At the end of 2005 the ratio was at 2.31 and at the middle of 2004 to about 1. In year 2005 IAS 40 was introduced in the investigated real estate companies and it is this reform which is the reason to the rising ratio at that time.

The chart below shows that the real estate companies have changed the figures dramatically when they took IAS 40 in account. The gap between the curves has increased. If this gap will remain large or increase over periods, it can be seen as an indication that the income statement is subjective.

An inability to generate the money that the accrual accounting has forecasted can possibly be discerned. The figures also show that the projected cash flows (the accumulated income) sooner or later, will generate figures equivalent to the money. For example, take period 16, a projected cash flow of approximately SEK 25 billion. This prediction is true in period 26. It can also be noted that performance curve has a downward trend in periods 23-26. The forecast of cash flow in period 23 was about 42 billion and then dropping to around 39 billion.
This downward trend should be seen as a step in the adjustment to a more realistic lower cash flow than the company initially expected. The ratio will thus fall towards one, which of course also is the value that the companies actually will face.

Summary

First the theoretical starting point. The fact that a company’s total income through the years is in line with its net cash flows from operations is given and need not be discussed. Similarly, in balance sheet shareholders’ equity is in conformity with the sum of all income gains (assuming no equity transactions have been done) given to the company’s assets and liabilities are estimated to fair values.
It should be noted that in a liquidation situation of the business the cash flow sector “investment” and “finance” will be dissolved. Differences between the accrual income and the “money income” will be ceased. This leads to a definitive compliance between the sum of all gains and the sum of all net cash flows from operating activities. Calculated as a ratio between the two variables the quote will be exactly the value of 1.

Thus, on a "lifetime" approach the sum of all gains will correspond to the sum of the accumulated operating activities (net cash flow), which also will be consistent with the sum of all dividends. In a statement based on "fair value" methodology, the reported equity at all times is to be an indicator of what will be distributed to the shareholders in the future.

Now the practical case. It must first be noted that the table shows that the accumulated accrual income statement and the accumulated operating activities during the first two analyzed years is roughly on the same levels. After the year of 2005, however, the accrual income has to be larger than cash flow from operations.

The immediate reason for this is the new framework, IAS 40, which has been introduced in the listed real estate companies at that time. It can be "simple" noticed that higher values did not contribute with more money. The idea behind the fair-value accounting, however, is that in early stage describing the future cash flows through the balance sheet and income statement. This company has possibly succeeded to do that. The graph shows that this company in the
so-called financial crisis adjusted down its income in the direction of the actual cash flow. This demonstrates that the financial statements at that higher level of income may not be assessed as relevant.

The values for "accrual income" and "cash flow from operations" have also been used to determine which curve is smooth. It can be observed at the time that the variation in cash flow from operations an average (median) 41% higher from one quarter to the next in comparison with the accrual income.

The development is therefore smoother than the development of cash flow in operating activities. It should be noted that the increase in income over the period 2005-2007 was significantly higher than the increase in cash flow from operations. During the period 2008-2009 the ratio was the opposite, which can be seen as an adaptation on a too high net income in relation to cash flow.
Referenser

Kvartalsrapporter 2002 Q4 – 2009 Q4 i de analyserade bolagen.