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International Accounting Harmonization of Cash Flow Reporting Practices: Evidence From the Largest Italian and Spanish Companies

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Abstract

This paper investigates the phenomenon of accounting harmonization among Italian and Spanish entities that adopt IAS/IFRS, focusing on the cash flow reporting practices (IAS 7). We provide empirical evidence at the European level by analysing the accounting harmonization of IAS 7 adoption. Specifically, by using the C index of Van der Tas, we analyse the Cash Flow Statements (CFSs) published in 2020 of the largest companies that operate in Italy and Spain, respectively listed in *FTSE MIB40* and *IBEX35*. Overall, the empirical findings indicate great levels of harmonization in applying IAS 7 emerged by the analysis of CFSs in the annual reports of 2020. Italian and Spanish companies show similar results on IAS 7 harmonization. The level of harmonization could be improved in the future across different companies of various EU countries, necessitating further work by the IASB to reduce alternative methods allowed in IAS/IFRS standards. The aim of this work is to investigate how IAS 7 allows different options for reporting entities' cash flows as well as to verify the level of harmonization of the largest Italian and Spanish groups. Finally, we address solutions to make CFSs more comparable among entities that belong in different EU countries.

Keywords: Accounting harmonization, IAS 7, Cash flow reporting, C index, Financial disclosure, FTSE MIB40, IBEX35

1. Introduction

Financial accounting and reporting issues have always been labelled as the idiom of businesses (Bloomfield, 2008), supported by the growing demand for a common international language, as the number of business activities is widely increasing (Graham & Neu, 2003, Porter, 2005). The need for harmonization among different financial statements has become more relevant and represents an essential path for realizing more comparable and reliable information at international levels (Barlev et al., 2007; Taplin, 2011; Yip & Young, 2012). According to Wang (2014), financial statement comparability has been considered an important feature of financial reporting, enhancing the usefulness of accounting information. Libby et al. (2009, p. 714) underlined that "*analysing financial data without a basis for comparison is impossible*".

The European Union (EU) strategy, with respect to accounting, is to standardize the listed companies' accounts, making them comparable, and to harmonize accounts by the enactment of accounting directives. For over three decades, the structure of both annual and consolidated accounts has been regulated by two main directives (Directives 78/660/EEC and 83/349/EEC (Note 1)). Although the EU has definitely shown a significant improvement towards harmonization of regulations, the EU pronouncements had a partial codification of the accounting treatments and left a set of options, which have been differently applied by EU Member States (EMSs) due to different social, cultural, economic, legal and political conditions.

Harmonization between financial statements of the largest European companies is mainly based on IAS/IFRS, which became an urgent issue when the EU published Regulation no. 1606/2002, obliging all entities listed on European markets to prepare their consolidated accounts following IAS/IFRS as of 2005. The application of IAS/IFRS cannot necessarily lead to better comparability among financial statements (Christensen et al., 2007); in fact, European companies could still choose divergent accounting practices because IAS/IFRS provide multiple options for classifying the same items, reducing the level of harmonization. Van der Tas (1992) defines accounting harmonization as a process by which an increasing degree of harmony leads to conformity between accounting rules. The author also distinguished between two forms of harmonization: formal (*de jure*), which implies the process of "spontaneous" coordination of standards, and material (*de facto*), which refers to a "forced" process of harmonization. For the goal of this study, we examine *de facto* harmonization by focusing on cash flow reporting (IAS 7), which sets rules for CFSs in the Italian and Spanish contexts (Note 2), two countries that are characterized by creditor protection and a strong link between taxes and accounting. In this context, CFSs are comparable "*in respect of one specific event if under the same circumstances this event is accounted for in the same way in both reports or if multiple reporting takes place*" (Canibano & Mora, 2000, p.352). The aim of this paper is to investigate the level of cash flow reporting comparability in consolidated financial statements in Italy and Spain; both of which are used in this study since they are both "Code" countries. The analysis is quantitative and is applied by using the so-called Comparability index of Van der Tas (1988, 1992), which measures the degree of *de facto* harmonization derived from the various classifications of cash flow items in the largest Italian and Spanish companies, considering the last available year 2020. Assuming that *de facto* harmonization of accounting alternatives increases comparability among companies and countries, this study contributes to the literature by investigating the following main research question: *After almost two decades that Regulation 1606/2002 came into force for EU listed companies, does the application of IAS 7 ensure greater comparability of accounting practices, even when different valuation options are provided?*

We contribute to the literature on international accounting by providing some important insights to achieve the following objectives:

- find several points as to which IAS 7 permits different ways of reporting entities' cash flows;
- update the analysis made by Mechelli (2009) on cash flow reporting harmonization in Italian companies during first adoption;
- classify different options of cash flow reporting and examine how many entities select all the options in our sample;
- develop some insights relating to our results and verify the level of homogeneity in applying IAS 7 by Italian and Spanish groups;
- address solutions to improve the comparability of CFS across entities in different but similar EU countries.

The following sections of this paper are presented. In Sections 2 and 3, we report the institutional context, the institutional context, and the theoretical framework together with the prior literature. In Section 4, we present the methodology used to develop our research analysis. In Section 5, we identify and discuss the empirical results. Section 6 summarizes and concludes the paper.

2. Institutional Context: The IFRS Implementation in Italy and Spain

Globalization and cross-border transactions among corporations have required the need for a unique and homogeneous system that is based on a universally recognized set of accounting standards. The Sarbanes-Oxley Act of 2002 endorses global accounting convergence as a means of better financial reporting quality and a greater level of investor confidence in publicly traded companies. The most relevant turning point to global accounting convergence at the European level has been the enactment of the E.U. Regulation No. 1606/2002 (IAS Regulation). In June 2002, the EU Council of Ministers approved a regulation requiring EU-listed entities to prepare consolidated accounts in accordance with IAS/IFRS as of 2005. This IAS regulation will cover all entities with public stocks on EU regulated markets, including banks and insurance entities. Member states have the option to extend this requirement to unlisted companies and to individual financial statements. This regulation is expected to help increase market efficiency and reduce the cost of raising capital for EU companies. IAS/IFRS adoption represents a crucial step in establishing a single European capital market.

In contrast to countries where professional practice orients accounting standards (typically the "anglo-saxon" countries), the accounting rules in Italy and Spain, two countries where the legal system is based on Roman Law, are based on legislation. The Italian legislator has expressed its choices in Article 25 of Law 306/2003, where a series of entities different from listed companies and from companies that prepare consolidated financial statements are indicated. According to Law 306/2003 and aside from what was required by EC Regulation 1606/2002, the application of IFRS is mandatory for all listed companies for their individual financial statements, companies that issued financial instruments on the public market as defined by Article 116 TUF ("*Testo Unico della Finanza*") for both the consolidated and individual accounts, banks and financial intermediaries that are subject to the supervision of the "Banca d'Italia" for both the consolidated and individual financial statements, and insurance companies for their consolidated and individual financial statements, but only if they are listed and do not have to prepare consolidated accounts. In Spain, IFRS adoption was implemented by the Law 62/2003, setting tax, administrative and social measures, by establishing accounting rules to consolidated accounts are required to report mandatory statements from 2005 onwards.

Table 1. Italian and Spanish Authorities for accounting standards

	Italy	Spain
Relevant Jurisdictional Authority	Organismo Italiano di Contabilità (OIC)	Instituto de Contabilidad y Auditoria de Cuentas (ICAC)
The aim of the organization	The OIC issues Italian accounting standards. responds to IFRS Foundation (Trustee, IASB Board, IFRS IC) consultations, participate at IASB meetings and EFRAG meetings, cooperates with the legislator in accounting matters; and acts as promoter of the national accounting culture.	The ICAC recommends accounting standards to be applied into law by the government. It represents the standard-setter for Spanish GAAP.

3. Theoretical Framework and Literature Review

3.1 Coercive Isomorphism

To analyse the process of convergence towards the general rules defined by IASB, it is necessary to consider that the harmonization process can be entirely achieved through the rationalization of institutional factors (Judge et al., 2010; Ghio & Verona, 2015).

Because institutional contexts differ, international accounting harmonization is challenging. The process of enforcement of accounting models derived from Anglo-Saxon in EU contexts at various levels of development and different social, cultural, economic, legal and political conditions has been disapproved (Carneiro et al., 2017). When the IASB became a standard setter with a certain relevance at the international level in the mid-1990s, criticisms against harmonization were declined.

The IASB's success originates from its principles-based accounting, which is flexible and adaptable to national accounting systems. However, there are contradictory insights about the quality of financial reporting. According to Carmona & Trombetta (2008, p. 458), companies from different countries may fully commit to IAS/IFRS increasing the quality of reporting or adopt IAS/IFRS as "label adopters" by seeking a reputation. In other words, some entities may take advantage of the flexibility and adaptability of IAS/IFRS but are "labelled" as IAS/IFRS adopters (Guerreiro et al., 2012a, 2012b). The process of enforcement of IFRS in different countries represents a coercive isomorphism (Carneiro et al., 2017). DiMaggio & Powell (1983) defined "isomorphism" as "*a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions*". According to Rodrigues & Craig (2007), isomorphism is only achievable when contexts and institutions are similar.

The authors provided a useful theoretical framework focusing on the institutional logics (Anglo-Saxon vs. Latin countries) that refer to "*the socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality*" (Thornton & Ocasio, 1999, p. 804). Isomorphism is a key element of *institutional theory* and assumes that entities use "*structures and management practices which are considered legitimate and socially acceptable*" by other entities (Saudagaran & Diga, 1997, p. 7). According to the authors, countries may "*align* [their] *regulatory practices and accounting standards with those existing elsewhere"* on the basis of bilateral agreements, common characteristics, and geographical proximity (Rodrigues & Craig, 2007). Supporters of institutional theory suggest that it is important to achieve legitimacy and social acceptability from external constituencies even though this involves applying potentially unsuitable practices (Carpenter & Feroz, 2001). IAS/IFRSs are used not only for efficiency reasons but also to improve a companies' reputation for being rational, modern, responsible and legally compliant (Carruthers, 1995, Meyer & Rowan, 1977). Thus, IFRS harmonization has various advantages for corporations and regulators in terms of cost savings, increased reputation, and enhanced financial information and comparability.

In line with the above framework, we test whether IAS/IFRS have increased the comparability between companies, and we test it among the largest companies in Italy and Spain in relation to cash flow reporting (IAS 7). Thus, we address the following research question: *Does IAS 7 adoption ensure a higher level of comparability of accounting practices on the largest Italian and Spanish entities?*

3.2 Accounting Harmonization and Its Measurement

With increasing globalization, accounting standards harmonization has witnessed a massive expansion all over the world, reducing divergence between different states' regulations (Reinstein & Weirich, 2002). In this context, international harmonization simplifies financial reporting procedures and facilitates users who do not have to comply with different accounting standards and laws (Thorell & Whittington, 1994; Ramanna, 2013). According to Nobes & Parker (2012), it is relevant to provide a clarification by distinguishing two terms: "Standardization" and "Harmonization" (Tay & Parker, 1990). The former is based on the need for uniform standards in all countries. The latter allows different requirements for individual countries. The literature provides no single definition of harmonization. According to Canibano & Mora (2000), harmonization is "*a more realistic and conciliatory approach and seems more attainable than rigid standardization*". According to Van der Tas (1988), "*harmonization is a coordination, a tuning of two or more objects. Users are confronted with several financial reports. It would be useful for them if these financial reports were more in harmony. Therefore, financial reports are a target of harmonization. One way to harmonize financial reports is to formulate standards, thus setting limits to the difference between financial reports*".

Harmonization consists of a movement away from total diversity of practice towards similar accounting systems and is relevant for improving international comparability in financial statements (Tay & Parker, 1990; Choi & Mueller, 1992). Walton et al. (2003 provides another definition): "*harmonization is a jargon used in international accounting to designate the reduction of reporting differences between different countries*". Furthermore, Nobes & Parker (2012) describe harmonization as "*a process of increasing the compatibility of different accounting practices by setting bounds to their degree of variation*" with the aim of increasing comparability, reducing costs, and ensuring more efficient activities. Prior studies on international accounting harmonization are mainly based on measurement and classification as indicated by index measures (Archer et al., 1996). The pioneering contribution on this topic is the study of Van der Tas (1988), who formulated a concentration index approach (the H index) derived from the Hirschman-Herfindal index of industrial concentration before developing his own comparability index (the C index) (Van der Tas, 1992). Another body of literature states that a more harmonized financial reporting should produce benefits to the entity's stakeholders (Barth et al., 1999; Christensen et al., 2007; Wang, 2014) or cases where a company represents clients in different countries (Nobes & Parker, 2012). For the accounting harmonization measurements, several scholars have distinguished formal harmonization (*de jure*), which is mainly based on accounting regulations harmonization (rules and standards), and material harmonization (*de facto*), which is related to harmonization within the companies' practices. The former term (*de jure*) implies greater comparability that derives from better conformity of practices (Rahman et al., 1996; La ńez et al., 1996; Aisbitt, 2001; Garrido et al., 2002; Fontes et al., 2005) and the latter to harmonization (*de facto*) among practices used by entities, regardless of whether such practices are affected by regulations (Van der Tas, 1988; Emenyou & Grey, 1992; Van der Tas, 1992; Archer et al., 1995; McLeay et al., 1999; Canibano & Mora, 2000; Aisbitt, 2001). As Tay & Parker (1990, p.75) stated, "*taking account of both the desirability of international comparability of financial statements and the operational difficulties involved in measuring processes rather than states, the most suitable concept for measurement appears to be de facto harmonization, in the form of studies of de facto harmony over time*". As a measure of the comparability of financial statements, Van der Tas (1988) formulated the Herfindahl index (H index) (rather than revised by Hirschman). The H index increases when the methods used by companies are concentrated on a limited number of alternatives. The H index does not consider multiple reporting since each company can only be assigned to one alternative accounting method. Furthermore, Van der Tas (1988, 1992) introduced two measures (the I index and the C index) to better facilitate the comparison among countries. Most papers have mainly focused on the use of metrics for financial statement comparability; in line with Catuogno & Allini (2011), better levels of comparability arise from a higher concentration of accounting methods. To date, there are no recent and scientific contributions investigating the degree of cash flow reporting harmonization in two different countries. For this reason, we propose an empirical investigation within two similar EU contexts (Italy and Spain) with the aim of testing the level of cash flow harmonization in the largest companies.

4. Research Design

4.1 Sample

The research started by collecting a sample comprising the largest listed companies in Italy and Spain. In particular, the analysis is based on listed companies in Italy included in FTSE MIB 40 and, on the other hand, the listed companies in Spain included in IBEX35. As noted, FTSE MIB 40 and IBEX35 indicate the market segments for the top Italian and Spanish companies, respectively. Financial companies have been excluded from the sample since they present characteristics that are totally different from those of traditional companies.

Table 2. Sampling process

	ITALY	**SPAIN**
Market Segment	FTSE MIB 40	IBEX 35
Largest listed companies	40	35
Financial and Insurance companies (-)	10	5
Final Sample	**30**	**30**

The final sample is composed of 30 Italian and 30 Spanish companies, as reported below with the related industry sector (Appendices A and B). The reason for selecting listed companies derives from the fact that they must present consolidated financial statements in accordance with IAS/IFRS, mandatory since 2005 for all consolidated statements of European listed companies.

We examined each entity's complete set of financial statements issued with reference to 2020, first of all the CFS, available for external users. We collected "*by hands*" financial statements issued by companies instead of referring to previous international surveys because adopting this approach, the research was developed assuming the same position of an external user. (Mechelli, 2009)

4.2 Method

As is well known, IAS/IFRS allows companies to choose different options regarding the classification of items. For this reason, many preparers may choose the easiest option among alternatives, and this would lead to better levels of heterogeneity that may make financial statements less comparable across companies. There are some crucial elements as to which entities may select different choices in CFS reporting. These options may derive from different alternatives provided by IAS 7 as well as from the absence of a regulation concerning a specific issue that allows entities to choose among different solutions, none of which are contained by IAS 7 (Mechelli, 2009).

In this paper, we use the C-index formulated by Van der Tas (1992), which considers published financial reports and changes in accounting practices over time, indicating variability in harmonization (Walton et al., 2003, p.26). It measures the level of national harmonization when companies release financial data using alternative methods for a particular accounting practice (Mustaţă & Matis, 2007, p.5; Roberts et al., 2008, p. 293).

$$C\ index = \frac{\sum(n_i x(n_i - 1))}{(Nx(N-1))}$$

n = number of entities that used method i;

N = total number of entities.

The range for the C-index is 0 (disharmony: infinite number of alternative methods) to 1 (total harmonization where all companies use the same method).

To examine the level of cash flow harmonization by both Italian and Spanish companies, we analysed several elements, as reported below:

1. the method used for cash flow reporting ("indirect" or "direct")
2. the ways of applying indirect methods in cash flow reporting from operating activities ("the starting item") (earnings before interests, taxes, depreciations and amortizations, operating profit, profit/loss before taxes, net profit/loss, etc.).
3. the disclosure of Working Capital ("mentioned" or "not mentioned")

4. the disclosure of specific Working Capital items (i.e., changes in Trade receivables, Inventories, payables and other operating assets/liabilities) ("mentioned" of "not mentioned")
5. the classification of interest received (operating, investing, financing, not disclosed)
6. the classification of interest paid (operating, investing, financing, not disclosed)
7. the classification of dividends received (operating, investing, financing, not disclosed)
8. the classification of dividends paid (operating, investing, financing, not disclosed)
9. the classification of taxes on income (operating, allocation of the taxes paid).

The above points refer both to all the options explicitly allowed by IAS 7 (points 1, 5, 6, 7, 8 and 9) and to the different options used in applying IAS 7 regarding specific topics (points 2, 3 and 4).

5. Empirical Findings and Discussion

The simple presentation of data reported below indicates the level of harmonization according to the main elements selected from the IAS 7 content. The following tables show the results for each method in reference to Italian and Spanish samples.

Table 3. Method used to report cash flows

	ITALY		**SPAIN**	
	Direct	Indirect	Direct	Indirect
Number of companies	3	27	2	28
Percentage	*10.0%*	*90.0%*	*6.7%*	*93.3%*

More than 90% of companies in Italy and Spain used the indirect method to disclose their CFS. Using the indirect method, the companies disclose their operating cash flows beginning from profit or loss and then add back the noncash transactions (depreciation, amortization, provisions, etc.), removing items that refer to investing and financing activities and adjusting the result for the effect of accruals of past or future operating cash receipts or payments. Alternatively, the direct method (only 3 companies in Italy and 2 companies in Spain use it) requires disclosing operating cash flows showing the main categories of gross cash receipts and payments.

The direct method is strongly encouraged by different standards because it is more useful for users to estimate future cash flows; alternatively, the indirect method is allowed because the IASB believes that the direct method may generate costs greater than the benefits of the information to external users (Stolowy & Walser-Prochazka, 1992, p. 193; Mechelli, 2009; p. 239).

Table 4. The application of indirect method ("the starting item")

	ITALY					SPAIN				
	Profit before taxes	Net Profit	EBITDA	Operating Profit	Net profit with no discontinued operations	Profit before taxes	Net Profit	EBITDA	Operating Profit	Net profit with no discontinued operations
Number of companies	8	15	0	1	3	21	3	2	2	0
Percentage	*29.6%*	*55.6%*	*0.0%*	*3.7%*	*11.1%*	*77.8%*	*11.1%*	*7.4%*	*7.4%*	*0.0%*

Considering the highest degree of homogeneity in selecting the indirect method, as reported in Table 3, the situation is different when we move on looking at the application of the indirect method. IAS 7 does not indicate a particular format to apply the indirect method. Regarding this issue, there are some starting items to apply the indirect method.

The findings are reported in Table 4. The level of harmonization, as almost all companies use the indirect method, hides a wide level of dis-harmonization that may be easily discovered by analysing different ways chosen by Italian and Spanish groups in applying the indirect method.

Our results show two important aspects:

- A total of 55.6% of Italian companies decided to use the indirect method starting from the "Net Profit", which is the bottom-level item in the income statement.
- A total of 77.8% of Spanish companies decided to use the indirect method starting from the "Profit before taxes".

In other words, the majority of Italian companies preferred to start from "net profit", as they did before the adoption of IASB standards, which is different from the examples proposed in IAS 7 (Appendix). Spanish companies preferred to start from profits before taxation, which is clearly indicated in the Appendix.

Table 5. The disclosure of working capital

	ITALY		SPAIN	
	Mentioned	Not Mentioned	Mentioned	Not Mentioned
Number of companies	17	10	26	2
Percentage	*63.0%*	*37.0%*	*96.3%*	*7.4%*

Table 6. The level of disclosure of working capital

	ITALY		SPAIN	
	Mentioned	Not Mentioned	Mentioned	Not Mentioned
Number of companies	20	7	17	11
Percentage	*74.1%*	*25.9%*	*63.0%*	*40.7%*

Among companies that use the indirect method, it is possible to investigate which of them have chosen to make a disclosure on an important item, "working capital". This item is relevant because it indicates the operating cash flow generated by the change in the principal short-term operating assets and liabilities (receivables, payables, inventories, other short-term operating assets and liabilities). As shown in Table 5, 63% of Italian companies decided to disclose "working capital", and almost all Spanish companies (96.3%) disclosed it. With regard to the single items contained in "working capital", on the other hand, the following comments can be made:

- Approximately 3 out of 4 Italian companies have mentioned the single items of working capital (receivables, payables and inventories)
- The 63% of Spanish companies mentioned the above single items.

Table 7. Classification of interest received

	ITALY				SPAIN			
	Operating	Investing	Financing	No Disclosure	Operating	Investing	Financing	No Disclosure
Number of companies	20	2	0	8	20	5	0	5
Percentage	*66.7%*	*6.7%*	*0.0%*	*26.7%*	*66.7%*	*16.7%*	*0.0%*	*16.7%*

Table 8. Classification of interest paid

	ITALY				SPAIN			
	Operating	Investing	Financing	No Disclosure	Operating	Investing	Financing	No Disclosure
Number of companies	22	0	2	6	16	0	12	2
Percentage	*73.3%*	*0.0%*	*6.7%*	*20.0%*	*53.3%*	*0.0%*	*40.0%*	*6.7%*

Table 9. Classification of dividends received

	ITALY				SPAIN			
	Operating	Investing	Financing	No Disclosure	Operating	Investing	Financing	No Disclosure
Number of companies	13	3	0	14	9	6	1	14
Percentage	*43.3%*	*10.0%*	*0.0%*	*46.7%*	*30.0%*	*20.0%*	*3.3%*	*46.7%*

Table 10. Classification of dividends paid

	ITALY				SPAIN			
	Operating	Investing	Financing	No Disclosure	Operating	Investing	Financing	No Disclosure
Number of companies	1	0	29	0	0	0	25	5
Percentage	*3.3%*	*0.0%*	*96.7%*	*0.0%*	*0.0%*	*0.0%*	*83.3%*	*16.7%*

As anticipated as before, requires disclosures of interest and dividends in the CFSs, and there is no consensus on the classification of these cash flows. IAS 7 allows the classification of interest paid, interest received and dividends received as operating cash flows. On the other hand, these items may be classified as financing cash flows or investing cash flows. Alternatives are also provided for dividends paid, as IAS 7 allows classifying them either as financing or operating cash flows. The results on interests and dividends are summarized in Tables 7, 8, 9 and 10.

A total of 66.7% of Italian and Spanish listed companies have decided to classify interest received as operating cash flows, and 6.7% of Italian companies (and 16.7% of Spanish companies) classify them as investing cash flows. The remaining companies (8 Italian and 5 Spanish) do not provide disclosure on interest received.

A total of 73.3% of Italian listed companies have decided to classify interest paid as operating cash flows (while Spanish companies are 53.3%); 40% of Spanish companies classify interest paid as financing, while only 6.7% of Italian companies do so. The percentages of companies that do not provide disclosure on interest paid are 20% in Italy and 6.7% in Spain.

The majority of Italian and Spanish listed companies (46.7% in both countries) have decided to not disclose dividends received. Thirty percent of Spanish companies classify them as operating (among Italian companies, 43.3% do it). The 10% and the 20% of Italian and Spanish companies, respectively, classify them as investing.

Considering the dividends paid, we notice that 96.7% and 83% of Italian and Spanish companies, respectively, classify them as financing. The remaining Spanish companies have decided not to provide disclosure on this item, while the remaining Italian companies classify them as operating.

Table 11. Treatment of taxes on income

	ITALY			SPAIN		
	Operating	Allocation of taxes paid (investing)	Allocation of taxes paid (financing)	Operating	Allocation of taxes paid (investing)	Allocation of taxes paid (financing)
Number of companies	30	0	0	30	0	0
Percentage	*100.0%*	*0.0%*	*0.0%*	*100.0%*	*0.0%*	*0.0%*

IAS 7 also requires cash flows from taxes on income to be disclosed separately in CFSs and classified as operating unless they are specifically identified as "financing" or "investing". The most relevant alternative is related to the opportunity to divide or not to divide the whole amount of taxes paid into operating, investing and financing to correlate taxes paid with items that brought such taxes. With regard to this argument, we have also verified whether Italian and Spanish companies allocated the tax paid to operating, investing and financing activities.

The results on tax allocation are provided in Table 11 and show a high degree of harmonization in classifying taxes on income as operating. All the companies analysed consider any other allocations too complex and arbitrary.

By computing the C index (Table 12) for all of the above alternatives of classification, we can state that, in both contexts, the most used method of CFS is the "indirect", particularly in Spain, where the C index is found to be 0.8713 (in Italy, it is 0.8138). What emerges from this analysis is the general observation that the classification of taxes on income is the same for all Italian and Spanish companies (C indices are 1.000 for both contexts). The classification of interest received and dividends received show a discrete harmonization between the two countries (the differences in the C-index are 0.0207 and 0.0690, respectively). The dividends paid are generally classified in the "Cash Flow from Financing Activities" even though there is a difference of 0.2207 from Italy and Spain, as demonstrated by the fact that the more Italian companies decided to classify dividends paid ad financing (C-index 0.9333 for Italian companies and 0.7126 for Spanish companies).

Furthermore, in the Italian context, there is a very low harmonization considering the "starting item" of the indirect method of CFS: some companies start from net profits, others from profit before taxes, and many others use different starting items. This leads to a C index of 0.3789. The results on the classification of working capital and the single items of working capital have been found to be between the range of 0.50 and 0.60.

In the Spanish context, there is a high harmonization among companies that disclose "working capital" in their CFSs (C index is 0.7494) but a very low harmonization considering the working capital specific items disclosure since the C index is equal to 0.4391. Nevertheless, in Spain, there is a good harmonization in terms of the starting item by using the indirect method since one of the most recurring items is the "profit before taxes" (C index is 0.6097).

Table 12. Summary of empirical results of cash flow reporting alternatives (IAS 7)

#	*Method of Classifying CFS items (IAS 7)*	**ITALY FTSE MIB 40 (N=30)**	**SPAIN IBEX35 (N=30)**	***Differences***
1	Method used to report cash flows	0.8138	0.8713	**-0.0575**
2	The application of indirect method ("the starting item")	0.3789	0.6097	**-0.2308**
3	The disclosure of Working Capital ("Yes" or "not")	0.4161	0.7494	**-0.3333**
4	The level of disclosure of Working Capital ("Yes" or "not")	0.4851	0.4391	**0.0460**
5	Classification of interest received	0.5034	0.4828	**0.0207**
6	Classification of interest paid	0.5678	0.4299	**0.1379**
7	Classification of dividends received	0.3954	0.3264	**0.0690**
8	Classification of dividends paid	0.9333	0.7126	**0.2207**
9	Treatment of taxes on income	1.0000	1.0000	**0.0000**
	Average C-Index	**0.6124**	**0.6251**	

Although with different results of item classification, we can finally state that Italy and Spain have basically the same score of comparability index since they record 0.6124 and 0.6251, respectively. The differences between the C-index for each of the above items classified are shown in Table 12 and are underlined in different colours depending on the highest or lowest differences:

- No differences between countries (values close to zero): Treatment of taxes on income.
- Slight differences between countries: Method used to report cash flow, The level of disclosure of Working Capital, Classification of interest and dividends received.
- Moderate difference between countries: Classification of interest paid.
- High differences between countries: The application of indirect method ("the starting item"), The disclosure of Working Capital and Classification of dividends paid.

6. Conclusion

The globalization and internationalization of companies have played a relevant role in business success, as several issues arise in international business practices for companies, investors, lenders, governments, and other stakeholders. Different accounting systems among various national accounting standards generate different financial information that is not easy to compare among various companies. For this reason, countries are pushed to prepare their accounts to comply with international accounting standards, specifically for corporations. However, this process can be anything but cheap and makes information confusing in decision-making.

For this reason, regulation 1606/2002 was enacted to implement a process of international harmonization of accounting standards among EU listed companies, banks and insurance companies included.

The central goal of this study is to analyse whether the cash flow reporting practices made by the largest Italian and Spanish companies demonstrate better levels of harmonization.

Accounting for our empirical findings, we found a low harmonization with the rules after the adoption of IAS/IFRS (Street et al., 1999; Street & Grey, 2002; Street & Larson, 2004), also specifically with cash flow statements (Spiller & Virgil, 1974, p. 130), which might lead to some reflections on how to solve the problem (Mechelli, 2009).

In Italy and Spain, both issuers and users do not give enough relevance to cash flow statements, although listed companies are required to present annually. Culturally speaking, issuers and users concentrate their attention on income statements and balance sheets, which is attributable to the fact that the law in those countries have only recently required non listed companies to issue cash flow statements, and consequently, they do not have to adopt IASB standards.

However, the solution to this problem is not easy to implement because it requires a complex effort by the IASB to reduce the alternative methods to classify specific items in CFSs to facilitate comparisons among entities and increase the level of harmonization from which all external users of financial reporting may benefit.

This research has some limitations that may be the starting point for future studies. First, we analysed only two countries (Italy and Spain). It would be appropriate to address the whole set of EU countries to have an exhaustive portrait of the level of harmonization. Second, this study is not applied to non listed companies or financial companies, and we suggest integrating further companies in terms of dimension and of other industry sectors in future contributions.

For future research avenues, it would be useful to test the level of harmonization after the implementation of Directive 2013/34/EU. Research on this issue would aim to validate whether the directive has generated higher levels of harmonization.

To conclude, despite the many efforts made to date by the EU and the individual member countries, the process of harmonizing European accounting regulations cannot yet be considered complete. Not all countries readily accept the EU enforcement process, and there are many countries that are still deeply tied to the previous accounting tradition. Nonetheless, we provide evidence in Italy and Spain, two countries with a strong national accounting tradition, that there has been significant progress at least in terms of cash flow reporting. Many other countries are still engaged in the difficult process of accounting harmonization.

In line with the above discussion, this paper represents an important starting point to address several issues for regulators, standard setters (especially the IASB), and European institutions that are an active part in the process since our findings offer important insights into how IFRS adopters (largest companies) are currently located in the process of international harmonization "*that is characterized by regulatory rigidity and a legalistic outlook*" (Callao et al., 2007, p.150).

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Appendix 1. Italian Listed Companies (Non-financial) by Industry Sector in FTSE MIB 40

#	Companies	Industry Sector (NAICS 2017)	Market Capitalization 2020 (€/milion)
1	A2A S.P.A.	Electric Power Generation, Transmission and Distribution	5.015,00
2	AMPLIFON SPA	Medical Equipment and Supplies Manufacturing	9.454,48
3	ATLANTIA S.P.A.	Other Support Activities for Transportation	14.910,99
4	AZIMUT HOLDING SPA	Management of Companies and Enterprises	3.175,81
5	BUZZI UNICEM S.P.A.	Cement and Concrete Product Manufacturing	3.956,55
6	CAMPARI SPA	Beverage Manufacturing	13.313,22
7	CNH INDUSTRIAL SPA	Agriculture, Construction, and Mining Machinery	17,335.70
8	DIASORIN S.P.A.	Pharmaceutical and Medicine Manufacturing	11.678,06
9	ENEL SPA	Electric Power Generation, Transmission and Distribution	103.247,45
10	ENI S.P.A.	Oil and Gas Extraction	37.819,97
11	EXOR SPA	Management of Companies and Enterprises	18.600,00
12	FERRARI SPA	Motor Vehicle Manufacturing	42,403.34
13	HERA SPA	Electric Power Generation, Transmission and Distribution	5.446,88
14	INTERPUMP GROUP S.P.A.	Other General Purpose Machinery Manufacturing	5.389,65
15	INWIT	Other Telecommunications	9,534.79
16	ITALGAS S.P.A.	Management of Companies and Enterprises	5.163,03
17	LEONARDO S.P.A.	Aerospace Product and Parts Manufacturing	4.192,84
18	MONCLER S.P.A.	Cut and Sew Apparel Manufacturing	15.895,60
19	NEXI SPA	Nondepository Credit Intermediation	12.587,45
20	PIRELLI & C. SPA	Rubber Product Manufacturing	5.439,73
21	POSTE ITALIANE SPA	Nondepository Credit Intermediation	13.334,69
22	PRYSMIAN S.P.A.	Communications Equipment Manufacturing	9.568,47
23	RECORDATI S.P.A.	Pharmaceutical and Medicine Manufacturing	11.632,46
24	SAIPEM SPA	Support Activities for Mining	2.735,43
25	SNAM S.P.A.	Other Pipeline Transportation	18.975,01
26	STELLANTIS	Motor Vehicle Manufacturing	28,050.67
27	STMICROELECTRONICS	Semiconductor and Other Electronic Component	27,571.75
28	TELECOM ITALIA SPA	Other Telecommunications	7.099,19
29	TENARIS	Iron and Steel Pipe and Tube Manufacturing	9.620,00
30	TERNA S.P.A.	Electric Power Generation, Transmission and Distribution	15.415,37

Appendix 2. Spanish Listed Companies (Non-financial) by Industry Sector in IBEX 35

#	Companies	Industry Sector (NAICS 2017)	Market Capitalization 2020 (€/milion)
1	ACCIONA SA	Residential Building Construction	7.855,61
2	ACERINOX SA	Iron and Steel Mills and Ferroalloy Manufacturing	2.999,17
3	ACS ACTIVIDADES DE CONSTRUC. Y SERVICIOS SA	Nonresidential Building Construction	10.350,02
4	AENA S.M.E, SA	Support Activities for Air Transportation	26.174,03
5	ALMIRALL SA	Pharmaceutical and Medicine Manufacturing	2.386,74
6	AMADEUS IT GROUP SA	Computer Systems Design and Related Services	32.925,20
7	ARCELORMITTAL	Steel and Mining	24.560,00
8	CELLNEX TELECOM SA	Other Telecommunications	29.336,42
9	CIE AUTOMOTIVE SA	Forging and Stamping	3.317,41
10	ENAGAS SA	Pipeline Transportation of Natural Gas	5.775,53
11	ENDESA SA	Electric Power Generation, Transmission and Distribution	29.036,99
12	FERROVIAL SA	Other Heavy and Civil Engineering Construction	20.559,46
13	FLUIDRA SA	Water, Sewage and Other Systems	5.029,18
14	GRIFOLS SA	Pharmaceutical and Medicine Manufacturing	12.486,94
15	INTERNATIONAL CONSOLIDATED AIRLINES GROUP SA	Scheduled Air Transportation	10.650,49
16	IBERDROLA SA	Electric Power Generation, Transmission and Distribution	91.168,22
17	INDUSTRIA DE DISENO TEXTIL SA	Cut and Sew Apparel Manufacturing	92.630,18
18	INDRA SISTEMAS	Transport, Air Traffic and Defence	1.229,00
19	IMMOBILIARIA COLONIAL	Real Estate	4.077,60
20	MAPFRE SA	Insurance Carriers	6.019,82
21	MELIA HOTELS INTERNATIONAL SA	Traveler Accommodation	1.546,99
22	MERLIN PROPERTIES SOCIMI SA	Lessors of Real Estate	4.484,82
23	NATURGY ENERGY GROUP SA	Natural Gas Distribution	22.558,84
24	PHARMA MAR SA	Pharmaceutical and Medicine Manufacturing	1.599,15
25	RED ELECTRICA CORPORACION SA	Electric Power Generation, Transmission and Distribution	11.137,91
26	REPSOL SA	Oil and Gas Extraction	15.462,70
27	ROVI	Pharmaceutical and Medicine Manufacturing	2.556,00
28	SIEMENS GAMESA RENEWABLE ENERGY SA	Aerospace Product and Parts Manufacturing	18.413,88
29	SOLARIA ENERGIA Y MEDIO AMBIENTE SA	Semiconductor and Other Electronic Component	3.624,65
30	TELEFONICA SA	Wired and Wireless Telecommunications Carriers	21.217,50

Notes

Note 1. Those directives were in dire need of modernization despite some problems still associated with the accounting harmonization process.

Note 2. A few empirical studies investigate the role of accounting comparability in different contexts including a firm's overall information environment (De Franco et al., 2010; Lang et al., 2010; Bradshaw et al., 2009).