research. When the research was conducted the researcher had no knowledge of the subsequent events at the cooperatives. Applying the OCFAID method of analysis the researcher drew conclusions about the future of each cooperative beyond the cut-off date. In all six cases, the researcher's ing Standards Board (FASB) believed that the Statement of Cash Flows, if used in conjunction with the other financial statements, would help interested parties assess an entity's past performance and also its ability to generate future cash flows (FASB 1986).

Lee (1992) succinctly stated the importance of both profits and operating cash flows: "the ultimate bottom line in business is not profit – it is the ability to earn a profit on the transaction and realise it in cash, and to do this repeatedly."

Lee also cautioned against assessing the entity's heath solely on the basis of single indicators or of a single period.

Robb (1999) produced a technique involving the simultaneous monitoring of (a) Operating Cash Flows after Interest and Distributions (OCFAID) and (b) Retained Earnings. With its graphical presentation it made clear to all readers, even those with minimal understanding of accounting, whether the entity had been generating a profit and turning it into cash and doing so repeatedly.

The OCFAID technique was applicable to cooperatives and investor-owned companies alike. It facilitated valid comparisons between the different types of entity. This was an important step away from models that emphasised profits and profitability as determinants of survival or failure.

Robb's technique was published by the Plunkett Foundation in The World of Cooperative Enterprise. Numerous other publications followed .

Discussions at the Plunkett Foundation in 1998 had sparked a suggestion from one of the senior advisors, David Thirkell, that it would be interesting to apply the technique to recent reports of half a dozen UK cooperatives and see whether the analysis was accurate.

Consequently Thirkell sent Robb a collection of annual reports of Buchan Meat Producers Ltd (1990 to 1994); Eastern Counties Farmers Ltd (1987 to 1993); English Fruit Company (1992 to 1997); Midland Shires Farmers Ltd (1992 to 1997); National Farmers Union Mutual Insurance Society Ltd (1992 to1997) and North Eastern Farmers Ltd (1992 to 1997).

Research Method

The financial reports were taken by the second author who was at that time (the year 2000) completing a Bachelor of Commerce (Honours) degree. One of her courses was 'Aspects of Corporate Distress' which included the OCFAID methodology. She had no knowledge of the six cooperatives' results beyond the annual reports and her analysis was based totally on the material in those reports.

Buchan's financial report for the year ended 31 March 1992 was not available. Therefore data relating to 1992 was obtained from the comparative figures in the 1993 report. This may limit the accuracy of the OCFAID calculation for 1992, as insufficient information was disclosed in the 1993 report to gauge the reliability of the figures presented.

Similarly the OCFAID figures for the first year under review for all firms included in the study were calculated from the comparative figures included in the subsequent year's financial reports and are subject to the same limitation.

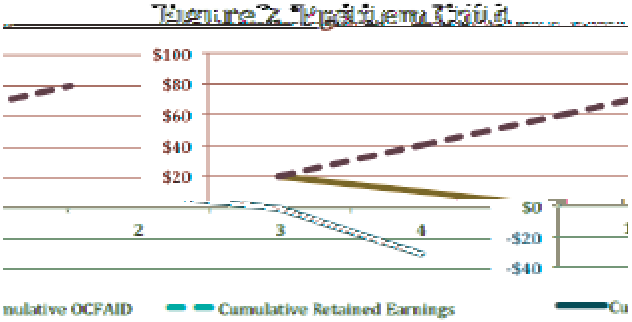
Expected OCFAID trajectories

Robb (1999) postulated that there are four main and one transitional trajectories. These are shown in Figures 1 to 5.

Fig 1 Star Performer

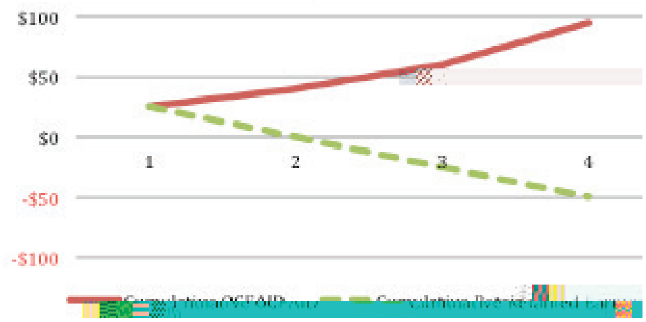
The star performer has strong net operating cash flows (after interest and distributions) and a high retention of profits. This is the ideal situation for any entity. A star performer might not have the strongest financial position but a positive OCFAID would be a comfort to creditors and the retention of profits would result in an improving debt/asset ratio over time.

Figure 2 Problem Child



The problem child is generating profits but not net operating cash flow. It will continue to operate only so long as it can fund the negative operating cash flow from some source, for example asset liquidations and capital injections.

Figure 3 Cash Cow



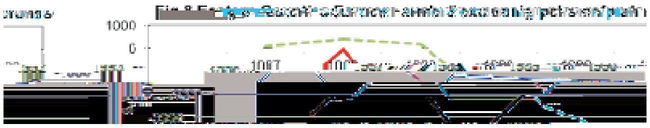
The third trajectory is the cash cow, which produces a regular cash flow from operations but operates at a loss. This is better than the problem child, but still less than optimal.

Figure 4 Dog

The dog is undoubtedly the worst of the trajectories, as its operations generate neither cash flow nor profit. It is both loss making and cash consuming.

The downward sloping retained earnings line

However a closer reading of the annual report disclosed that a significant part of the cash inflows in 1989 arose from pension plan refunds. These rare occurrences are not considered part of operating activities and so the graph was redrawn excluding them.



The exclusion of the pension plan refunds has a dramatic effect on the cumulative OCFAID trajectory. At no time does the cumulative total exceed zero, leading the researcher to conclude that ECF was in a dog situation rather than being a cash cow. ECF's debt to total assets was high at 72%. Management had proposed converting ECF to a public company believing that it had a firm efficient base on which to build in the future. Consequently, regardless of its organisational structure the future for ECF appears extremely bleak.

The English Fruit Company

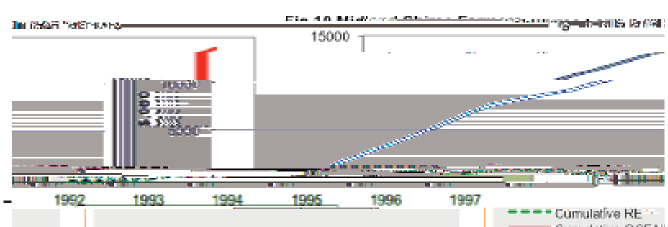
The English Fruit Company's activities were marketing fruit on behalf of members. Financial reports were available for the year ended 31 July 1992 to the year ended 31 July 1997.

It was noted that in each year a depreciation adjustment was made to account for the difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued cost of the assets. This adjustment was a transfer from Revaluation Reserve to the Profit and Loss Account. Coincidentally (?) it was often equal to the amount of the loss made in that year. While this had a beneficial effect on profits it made no impact on OCFAID.

As illustrated in Figure 9, the near horizontal retained earnings line and the downward sloping OCFAID line indicate a problem child situation. The cooperative was not generating sufficient operating cash flows to fund operations and without the depreciation adjustment, noted above, retained earnings would show signs of decline before 1996. The debt to asset ratio increased continuously from 1993, from around 35% to almost 70%. The OCFAID model shows that the cooperative was a problem child, its financial structure was weak and its future was "very bleak."

Midland Shires Farmers Ltd

Midland supplies inputs to the farming sector, markets grain for producers and provides supporting services for associated cooperatives. Financial reports were available for the year ended 31 October 1992 to the year ended 30 November 1997. The 1995 balance date was changed from 31 October to 30 November.



to have a reasonable future ahead of it.

The research findings were submitted to Thirkell at the Plunkett Foundation. Thirkell then disclosed the subsequent history of each of the six cooperatives. They are shown in Table 1 alongside the researcher's opinion based on the OCFAID analysis.

Table 1: Comparison of OCFAID analysis to actual outcomes

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