

Impact of Cashflow Reporting on Individual Investors' Investment Decision Making in Nepal: with Reference of Kirtipur Kathmandu

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ABSTRACT: The research is an attempt to study the impact of cash flow reporting on the individual investors' investment decision as well as to study the individual investors' investment sectors and to study the transparency and trustworthiness sector for investment. The research is full based on primary data so data were collected through questionnaire and distributed to 180 respondents in Kirtipur, Kathmandu. SPSS and Excel are used to analysis, interpret and result data are present in different table. The study reveals that the investors are not confident about the impact of the cash flow reporting on their investment decision process. Individual investors' are highly motivated to invest in hydro-power sector and beliefs it has transparency and trustworthiness sector for investment. Individual investors should consider cash flow statement and different factor like government policies, economic stability and capital structure during their investment process.

KEY WORDS: Cashflow, Financial Reporting, Investment, Investors, Decision Making

1. General Background

The cash flow statement is considered one of the most important financial statements from the point of view of information for investors. The cash flow statement provides the details of not only operating, financing and investment activities but it also provides the details of outcome from each activity in terms of real cash inflow or outflow. The profit and loss account at the same time only provides Financial statement are largely used by the institutional investors such as insurance companies, mutual fund companies and many more and then by the financial analysts. The uses of company's financial report by the retail investor has always been very minimum but at the same time it is the retail investor who fixes the higher return as one of the most important criteria for making an investment. Therefore, the researcher felt the need to study the impact of cash flow reports on the individual investors' investment decision making.

Cash flow reporting helps to provide owner and manager insight into company's cash position and provide better knowledge to make informed decisions about regular business operations, the need for further investment of the business, and capital from equity or debt partners.

Financial reporting which is an integral part of an annual report may be defined as communication of published financial statements and related information from a business enterprise to third parties (external users) including shareholders, creditors, customers, government authorities and the public. It is the reporting of accounting information of an entity (individual, firm, company, government enterprise) to a user or group of users.

information about the operating actives output that too on accrual basis.

The cash flow statement can become a source of information which can be easily understood by the investor's. This is because as the cash flow statement reports the inflow and outflow in real terms from different activities. And to be understood easily as compared to the other statements like income statement and balance sheet.

In fact, financial accounting information is essential to making good investment decisions. The statement of cash flows can be an important source of information to investors. It provides the details of the output from the all kinds of business activities of an entity. Investors use the relationship between net income (revenues minus expenses) and operating cash flows (cash flows from revenue and expense activities) to forecast a company's future profitability. Comparison of operating cash flows and investing cash flows help to assess a company's ability to repay debt. Financing activities provide information to investors about the different sources of external financing of the company.

Investment is defined as an act of sacrificing current resources in expectation of the growth in the value of such resources in future. The main purpose of investors engaged in investment is to both maximize their income and minimize their expenses. In the literature of finance, individuals are considered to behave rationally when pursuing their own benefits. In this context, individuals spare some of their income for expenditure and some for saving. Making a decision of investment can be studied in three stages: first to buy any securities, second to hold those for a period and lastly to decide to sale them. At all these

stages the investor need to do some amount of analysis which helps them to estimate the company growth aspect and their expectations fulfillment with the right investment. The company's financial reports have always played a very important role in providing the information to the investor at each stage of their investment process.

Hollister, (2008) in their study for nine countries they found that the components of accrual accounting earnings provide information incremental to that of current cash flows from operations in explaining next year's cash flows from operations. They relate the usefulness of accounting earnings components for explaining near-term cash flows to certain country characteristics-com mon/code-law jurisdiction, accrual index, shareholders' rights, and uncertainty avoidance. Their study provide evidence that accounting accruals generated by shorter horizon, code-law regimes provide more incremental explanatory power for short-term predictions than those of longer horizon, common-law countries.

Fisher and Ronald, (2006) explained about the success in investing largely depends on (a) discovery new and credible information rapidly and in more details than other do and (b) applying superior judgment to ascertain the relevance of the information to the decision at hand. An overwhelming weight is placed by analyst and investors on the information contained in the financial statements of firms. The members of the Financial Crisis Advisory Group (FCAG) reported to the Members of the International Accounting Standards Board and the US Financial Accounting Standards Board that financial reporting is of great importance to investors and other financial market participants in their resource allocation decisions and to regulators and other users. The confidence of all these users in the transparency and integrity of financial reporting is critically important to global financial stability and sound economic growth.

Sharma and Saha, (2015) conducted a research that aimed to seek the impact of company's cash flow reporting on the shareholder's investment decision making. They have found that individual investors are neither agree nor disagree about the impact of cash flow reporting on their investment decision. The study reveals that the investors are not confident about the impact of the cash flow reporting on their investment decision process.

Duhovnik, (2008) studied on improvement of the cash flow statement control function in financial reporting. This study tried to explore the cash flow ratios would serve as a control mechanism over the assumptions used when preparing the balance sheet and income statement within the chosen financial reporting framework. He has focused on the additional value of accounting information that can be given to the users of financial statements by a properly prepared statement of cash flows.

Wang, Zhu and Hoffmire, (2015) studied on financial reporting quality, free cash flow and investment efficiency.

This study attempts to examine the relationship between financial reporting quality and investment efficiency and to analyze the interaction effect between financial reporting and free cash flow on investment efficiency. They have found that financial reporting quality is more strongly associated with over investment for firms with large free cash flow, which suggests that financial reporting quality can reduce information asymmetry arising from agency conflicts between the managers and investors. This paper extends the field of application of financial reporting quality and investment efficiency in the emerging capital markets in the world.

Lewellen and Lewellen, (2016) has study the investment-cash flow sensitivities of U.S. firms from 1971-2009. Our tests extend the literature in several key ways and provide strong evidence that cash flow explains investment beyond its correlation. A dollar of current- and prior-year cash flow is associated with \$0.32 of additional investment for firms that are the least likely to be constrained and \$0.63 of additional investment for firms that are the most likely to be constrained, even after correcting for measurement error. Our results suggest that financing constraints and free-cash-flow problems are important for investment decisions.

Tariq, (2015) has focused the study to determine the relationship of the financial reports and investment decision and framing bias affects the relationship of financial reporting and investment decision. His result shows that financial reporting is significantly positive associated with investment decision and framing bias affects the relationship of financial reporting and successful investment decision. So that study may help the investor to focus on present facts and choices as neutrally and consistently at the time of investment decision and to keep the big picture in mind.

Frank and James, (2014) has focused the study to examine the relationship between cash flow and corporate performance in the Food and Beverages sector of Nigeria. The study involved a survey of Six Food and Beverages companies quoted in the Nigerian Stock Exchange. The results of the study revealed that operating and financing cash flows have significant positive relationship with corporate performance in the Food and Beverage Sector of Nigeria. It was also empirically verified that investing cash flow and corporate performance have significant negative relationship. The researchers recommended that regulatory authorities should encourage external auditors of these quoted Food and Beverages Companies to use cash flow ratios in evaluating the performance of a company before forming an independent opinion on the financial statement. This will give detailed information on the company to enable investors make rational investment decisions.

Nazsayari and Mugan, (2013) has studied on cash flow statement as an evidence for financial distress. This study has examined the effect of cash flow components on

financial distress score is examined for 124 companies selected from Istanbul Stock Exchange. It is further analyzed whether cash flow components have an explanatory effect on bankruptcy risk and financial health of companies. The results show that there is a negative relationship between CFO, company size and financial distress score of companies. On the contrary, CFF is observed to be positively related with the financial distress score. Meanwhile, it is further observed that the standardized coefficient of CFI is statistically insignificant and hence it does not provide any evidence for the financial weakness or bankruptcy risk of companies. The paper also contributes to the prior literature by providing the financial distress score of firms selected from manufacturing and service sectors that are traded in the stock market of Turkey. In this respect, the study extends the subject of value relevance of cash flow statements as an evidence for financial distress, by illustrating detailed financial information about firms in a developing country.

Megan, Halegan, Caciuc and Cotlet, (2009) has studied on the cash flow statement between true and manipulation. They have focused their paper to present the main informational valences of cash-flow statement for investors and also to show the potential “make-up actions” made to give wrong information about a company for the decision makers. As Financial statements aim is to assure an efficient dialogue between the company and the external operators interested in having a good perspective of the entity. Information about the cash flows, as component of financial statements, is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows.

Ramlugun and Hosanee, (2014) has studied users’ perception on cash flow reporting practices in Mauritius. The study investigates which cash flow reporting method is perceived as being more useful among users in Mauritius. Their aim is to assess whether the direct method will favorably be integrated in reporting practices of Mauritian companies. A questionnaire was developed and surveyed for data collection. Findings reveal that users have a preference for the direct cash flow reporting method as far as relevance, reliability and decision usefulness are concerned. But they report a weak mean difference among them. In addition, as far as understandability is concerned, results suggest that users prefer the indirect method. This paper purports to contribute towards the on-going debate about which cash flow reporting method is more useful.

Sindhu, (2014) has assessed to examine the relationship between free cash flow and dividend in presence of a moderator firm size. Its results indicate proxies of free cash flow have positive and highly statistically significant relationship with free cash flow. This study have used panel

data analysis and to check the time and cross sectional effect, dummies has used. The results were highly statistically significant across the mostly companies and free cash flow but only two companies showing insignificant results. The results were insignificant across different periods and hypothesis was rejected under moderator but acceptable in fixed effect model.

Cash flow statement is a blood for every organization which spreads every details of outcome from each activity in terms of real cash inflow or outflow within an organization. So, cash flow statement is given high priority by every organization. But different investors’ did not give high priority to the cash flow statement before they invest in different sectors. Due to the lack of proper financial knowledge most of the individual investors’ have to loss their investment. This study is attempted to analyze impact of cash flow reporting on individual investors’ investment decision making. This study has tried to address the following research questions.

1. What is the role the company’s cash flow reporting play in the individual investors’ investment decision making?
2. In which sectors individual investors’ are highly motivated to invest?

2. Objective of the Study

The main purpose of the study is to examine various issues relating to the impact of company's cash flow reporting on the shareholders' investment decision making and their preference sectors of investment.

3. Research Methodology

This research is descriptive and analytical in nature, which has been supported by primary data. The population of the study is the whole people of the Kirtipur ward No 10 which is situated at kathmandu district of Nepal. The study considering the total population is too large for the study. So, for the study 180 individual people were taken as a sample. The study is based on convenience sampling.

A questionnaire has been severd to the respondent to elicit information related to their demographic details as well as their opinions or views on the impact of the reported earnings on the investment decision process. Respondent has been requested to provide their opinion on 5 Point likert Scale against each statement of assertions. Each statement of assertions stands to identify the different measures of cash flow reported by a company. Descriptive statistics and hypothesis test have been used to make proper analysis. For the reliability statistics cronbach alpha has tested as it measures of internal consistency, that is, how closely related a set of items are as a group. It is considered to be a measure of scale reliability. This study shows the alpha coefficient for the 12 items is 0.729 which suggests that the items have relatively internal consistency.

4. Results and Analysis

Demographic Analysis

It provides the detail information about the respondents who have fill up the questionnaire. It contains information on the

basis of gender, age-group, education status and occupation of the respondent of Kirtipur Kathmandu which are as:-

The respondents on the basis of gender are present below

Table no. 1: No. of respondents on the basis of gender

Gender	No. of respondent	% of respondent
Male	110	61.11
Female	70	38.89
Total	90180	100

Age group	No. of respondent	% of respondent
under 20	0	0
21-30	86	47.78
31-40	54	30
41-50	28	15.55
51-60	12	6.67
61& above	0	0
total	180	100

Education status	No. of respondent	% of respondent
Primary-secondary	34	18.89
Higher school	86	47.78
Undergraduate	46	25.55
Master and PhD	14	7.78
Total	180	100

Occupation	No. of respondent	% of respondent
Business	102	56.67
Job	50	27.78
Other	28	15.55
Total	180	100

Field survey: 2019

Table 1 shows that number of respondents on the basis of gender in which 61.11% are male respondent and 38.89 % are female respondent. Similarly this table also shows that number of respondent on the basis of age in which 47.78% are from age group 21-30, 30% are from age group 31-40, 14.44% are from age group 41-50, 7.78% are from age group 51-60 and under 20 and 61&above have no respondent. Likewise, the number of respondent on the basis of educational status in which 18.89% are from primary-secondary, 47.78% are from higher school, 25.55% are from undergraduate and 7.78% are from master and PhD.

This study also showed that the number of respondent on the basis of occupation in which 56.67% are from business sector, 27.78% are from job sector and 15.55% are from other different sector.

Descriptive analysis

The main objective of this study was to find out the impact of cash flow statement on individual investors’ investment decision making. The following statements of assertions have used to collect the investors' opinion on the impact of the cash flow reporting on their investment decision.

Table no. 2: Ranking of the Statements of Assertions

Statement of assertions	Mean	SD	Rank
Amount of cash flow out of operational activities as a supporting information against profit shown in profit & loss Account.	3.57	0.498	8
Amount of cash Sales tentatively indicates portion of cash profit.	2.99	0.462	12
Decrease in Cash and Bank balance in comparison to previous year's balance may indicate use of working capital for acquisition or construction of Fixed Assets.	3.72	0.456	7

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A sudden or unexpected sale of fixed assets may indicate the tendency of the company to slip off from its core activities.	3.74	0.454	5
Volume of cash realized by issue of Equity share indicates standing of the Company in Financial Market.	3.80	0.402	4
Increased amount of cash or cash equivalent indicates better liquidity	3.73	0.455	6
Government policies (contributions, tax reductions etc.) affect investor behavior in a positive way	4.39	0.490	1
Economic stability is a key element effecting investment decisions for investors	3.44	0.500	9
Investors attach importance to innovations in banking and financial services	3.14	0.354	11
Increase in income level raises investor interest on financial instruments	3.42	0.502	10
Investors consider their past investment experiences while taking investment decisions	3.87	0.342	3
Investors are influenced by expert (consumer or investment representatives) and other investors’ decisions while taking investment decisions	4.20	0.565	2

Source: Field survey, 2019

Table 2 states the ranking of the different statements of assertions. The above assertions have used to study the opinion of the investors about impact of cash flow reporting on their investment decision process. On the basis of the above table it is observed that the government policies affect investor behavior is considered the most important factor by the investors followed by investors are influenced by expert.

Whereas, amount of cash Sales tentatively indicates portion of cash profit is least observed by the investors' in their investment decision. The average score of the opinion of the investors on the different statement of assertions is also analyzed. This has done in order to find out their stand on the impact of all these factors in their investment decision process.

Table no. 3: Analysis of the Statements of Assertions

Statement of assertions	Mean score	Interpretation of the Average Score
Amount of cash flow out of operational activities as a supporting information against profit shown in profit & loss Account.	3.57	Neither agree nor disagree
Amount of cash Sales tentatively indicates portion of cash profit.	2.99	Disagree
Decrease in Cash and Bank balance in comparison to previous year's balance may indicate use of working capital for acquisition or construction of Fixed Assets.	3.72	Neither agree nor disagree
A sudden or unexpected sale of fixed assets may indicate the tendency of the company to slip off from its core activities.	3.74	Neither agree nor disagree
Volume of cash realized by issue of Equity share indicates standing of the Company in Financial Market.	3.80	Neither agree nor disagree
Increased amount of cash or cash equivalent indicates better liquidity	3.73	Neither agree nor disagree
Government policies (contributions, tax reductions etc.) affect investor behavior in a positive way	4.39	Agree
Economic stability is a key element effecting investment decisions for investors	3.44	Neither agree nor disagree
Investors attach importance to innovations in banking and financial services	3.14	Disagree
Increase in income level raises investor interest on financial instruments	3.42	Neither agree nor disagree
Investors consider their past investment experiences while taking investment decisions	3.87	Agree
Investors are influenced by expert (consumer or investment representatives) and other investors’ decisions while taking investment decisions	4.20	Agree
Mean of mean	3.66	Neither agree nor disagree

Source: Field survey, 2019

Table 3 shows analysis is being observed that the investors neither agree nor disagree to the statements of the assertions. That means the company's cash flows reporting may or may not have impact on the investors' IDM process.

Further, t- test statistics has used to test the significance between the company's cash flows reporting and investors' investment decision making. The test has been conducted

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for average opinion of the respondents against each statement of assertions.

Alternative Hypothesis (H1): There is a significant relationship between Company's cash flow reporting and the investors' investment decision making.

Table no. 4: Calculation of t-test statistics

X	$X-\bar{X}$	$(X-\bar{X})^2$
3.57	-0.10	0.01
2.99	-0.68	0.46
3.72	0.05	0.00
3.74	0.07	0.01
3.80	0.13	0.02
3.73	0.06	0.00
4.39	0.72	0.52
3.44	-0.23	0.05
3.14	-0.53	0.28
3.42	-0.25	0.06
3.87	0.20	0.04
4.20	0.53	0.28
$\bar{X}= 3.67$	$\sum(X-\bar{X})= 0.00$	$\sum(X-\bar{X})^2= 1.74$

t- test Statistics= $\frac{(\bar{X}-\mu_0) \cdot \sqrt{n}}{s}$
t-test Statistics = 1.365

Table 4 shows the calculated t value with 95% confidence level at 11 degrees of freedom is 1.3065. However, the tabulated t- test value with 95%confidence level at 11 degrees of freedom is 2.201.Since, the calculated value is less than the tabulated value, therefore, it rejects alternative hypothesis and concluded that there is no significant relationship between Company's cash flows reporting and the investors' investment decision making.

For the purpose of performing the Chi-Square test the investor whose average score on the statement of assertions

is less than the average of the all the respondents is categorized as "Low Educated Investor" and those whose average score is more is categorized as "High Educated Investor".

Chi-square test for testing association between education status and impact of cash flow reporting on the investment decision making

Alternative Hypothesis (H1): There is a significant relationship between education status and impact of cash flow reporting on the investment decision making.

Table no. 5: Table of expected frequencies on the basis of education status

Count of respondent	High educated	low educated	Grand total
Primary-secondary	10	7	17
Higher school 007A 3Q	25	18	43
Undergraduate	17	6	23
Master and PhD	5	2	7
Grand total	57	33	90

Source: Field Survey, 2019

The chi-square test statistics i.e. $\chi^2 = \sum_{i=1}^n \frac{(O_i - E_i)^2}{E_i}$

Table no.6: Calculation of chi-square test statistics of education status

O_i	E_i	$\frac{(O_i - E_i)^2}{E_i}$
10	11.7	0.25
25	22.1	0.38
17	15.3	0.19
5	3.4	0.75
7	6.1	0.13

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18	16.3	0.18
6	7.1	0.17
2	3.6	0.71
		$\sum \frac{(O_i - E_i)^2}{E_i} = 2.76$

Chi-square test statistics, $\chi^2 = \sum_{i=1}^n \frac{(O_i - E_i)^2}{E_i} = 2.76$

Table 6 shows the calculated value of chi-square test statistics with 95% confidence level at 3 degrees of freedom is 2.76. However, the tabulated chi-square value with 95% confidence level at 3degrees of freedom is 7.814 which greater than calculated chi-square value. Therefore, it reject alternative hypothesis and concluded that there is no significant relationship between education status and impact of cash flow reporting on the investment decision making.

The second objective is to know about the investors’ interested sector to invest so the following questionnaire was provided to the respondents.

1) In which sectors individual investors’ are highly motivated to invest?

The respondents keep their opinion on investors’ interested sector. Table 7 shows that in aggregate 41.11% respondents agreed that they want to invest in bank likewise 14.44% respondent agreed to invest in company and 44.45% respondent want to invest in hydro- power. The responses received from respondents are presented below.

Table no. 7: Individual investors’ investment sector

Sector	No. of respondent	% of respondent
Bank	37	41.11
Company	13	14.44
Hydro- power	40	44.45
Other	0	0
Total	90	100

Source: Field survey, 2019

In conclusion, most of the respondents keep their opinion to invest in hydro-power

3) Which aspects of cash flow statement do you see?

Table no. 8: Aspects of cash flow statement

Aspect of cashflow statement	No. of respondent	% of respondent
Cash flow from operating	48	53.33
Cash flow from investing	24	26.67
Cashflow from financing	18	20
Total	90	100

Source: Field survey, 2019

Table 8 shows that in aggregate 53.33% respondents used to follow the cash flow from operating, 26.67% respondents used to follow the cash flow from investing and 20% respondents used to follow the cash flow from financing during their investment decision making of any sector.

Similarly, the investors’ interested sector in which it has transparency & trustworthiness for the investment so the following questionnaire was provided to the respondents.

1) In which sectors there is transparency & trustworthiness for the investment? (Please rank according to the importance: - 1-4).

Table no. 9: Rank of sector for transparency & trustworthiness

Sector	Average	Rank
Bank	2.87	2
Company	2.33	3
Hydro-power	3.37	1
Other	1.99	4

Source: Field survey, 2019

Table 9 states the ranking of the different sector for transparency & trustworthiness. The above table shows the opinion of the investors about transparency & trustworthiness sector on their investment decision process. On the basis of the above table it was observed that the hydro-power sector was considered the most important factor by the investors followed by other sector.

5. Discussions and Conclusions

Most of the individual investors’ investment decisions are based on the government policies to invest in any sectors as it has highest mean equal to 4.39. The finding of the Kadariya (2012) has supported to the finding of the study. From the opinion of individual investors’ it’s clear that cash flow statements are not consider during their investment decision are made. The finding of the Tariq (2015) has contradictory to the finding of the study. From the t-test statistical equal to 1.365 which shows that there is no significance between the company’s cash flows reporting and investors’ investment decision making. The finding of the Sharma & Saha (2015) has supported to the finding of the study. From the chi-square test statistics equal to 2.76 which show that there is no significant relationship between education status and impact of cash flow reporting on the investment decision making. The finding of the Kadariya (2012) has contradictory to the finding of the study. Similarly, investors’ are highly motivated to invest in hydro-power sector as it has 44.45% of respondent. The finding of the Kadariya (2012) has contradictory to the finding of the study. Likewise, most of the investors’ consider to see the cash flow from operating aspect as it has 53.33% of respondent. The finding of the Nazsayari and Mugan, (2013) has Contradictory to the finding of the study. Hydro-power was considered as most important sector which has transparency & trustworthiness for the investment as it has highest mean equal to 3.3

Individual investors are neither agree nor disagree about the impact of cash flow reported on their investment decision. However, theoretically it has observed that the cash flows reporting plays a very important role as the information about the cash generation capacity of the entity.

Amount of cash Sales tentatively indicates portion of cash profit have the least impact on the investment decision of the individual investors'. The category of gender to which the investors’ belongs does not have any impact on the use of cash flow into their investment decision making process. It interprets that the financial information are used irrespective of their gender by the investors. The educational qualification of the investors’ also does not have any impact on the use of the reporting cash flow into their investment decision making process. It interprets that the investors irrespective of their educational qualification depends on the same kind of analysis or source of information such as stockbrokers or advisory services. Individual investors’ are

highly motivated to invest in hydro-power sector than other sector. As it has higher return and market value. For the investment decision making individual investors’ used the yearly wise cash flow statement report in order to invest in different sector.

Most of the individual investors’ prefer to see the cash flow from operating aspect of cash flow reports rather than other aspects as it is the primary revenue-generating activities of a business. This research found that individual investors’ considered hydro- power sector as most important sector which has transparency & trustworthiness for the investment. The study concludes that investors with different demographic profile have almost same kind of opinion about the impact of Company earnings and cash flow on their investment decision. The reason for this may be their dependence on the same kind of information source or may be using almost same amount of analysis. Moreover, the individual investor mostly depends on the non-accounting information from different sources. Thus, the understanding of the financial reports plays a vital role in the use of such reports by the investors in their investment decision process.

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