

Figure 3a: Estimated Standard Errors of Coefficients for Equation (12)

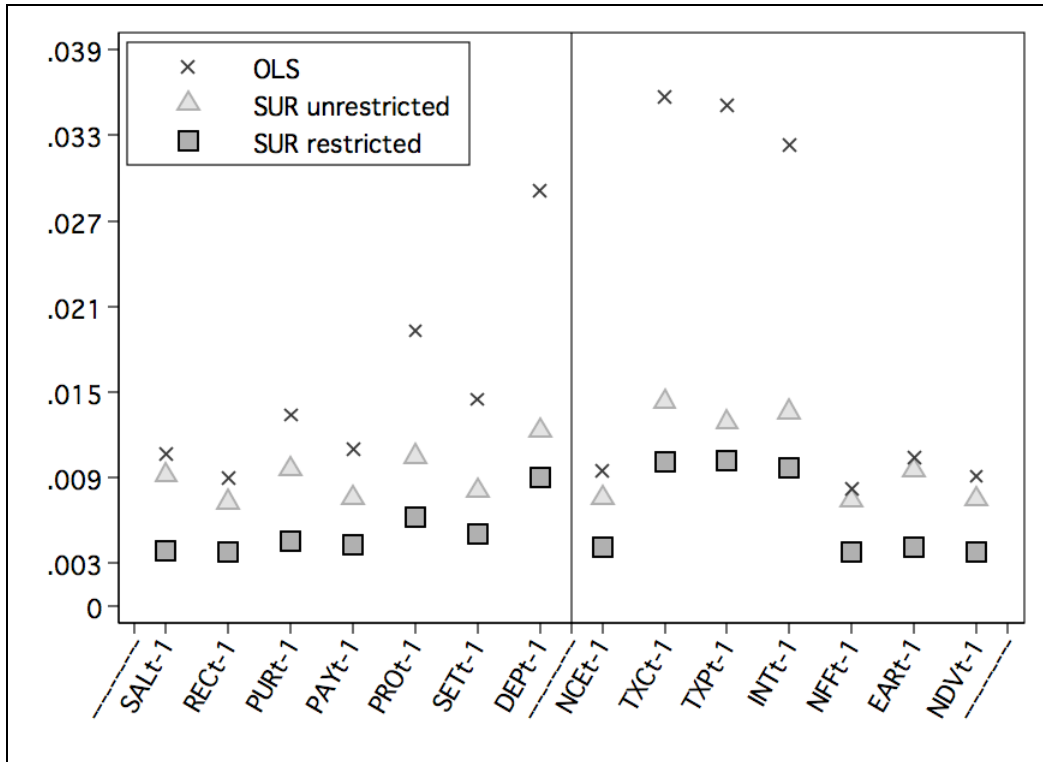
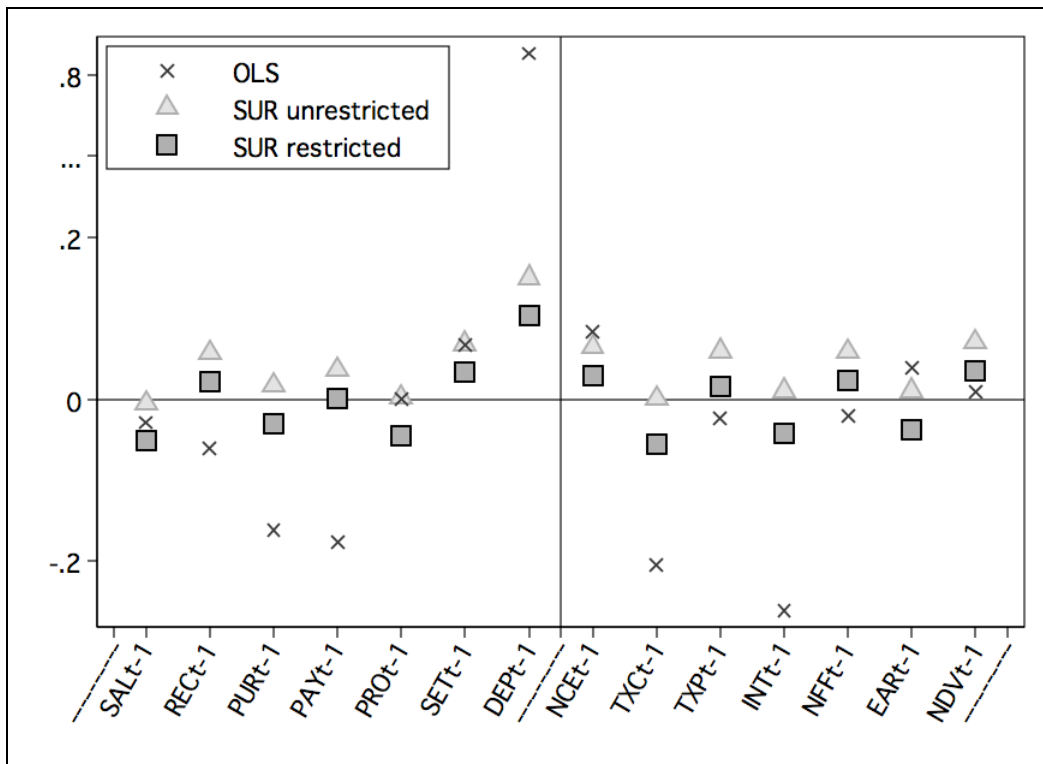


Figure 3b: Estimated Coefficients for Equation (12)



Note: Estimation is for the total sample of firm-years. The values of the estimated coefficients and their standard errors are reported in Table 3. OLS results are contrasted to the restricted and unrestricted versions of the SUR estimator. The left hand side panel indicates the regression of $OPAC_{it}$ and the right hand side panel the regression of $FIAC_{it}$. The three dots ‘...’ on the y-axis of Figure 3b indicate a truncated range that assists the visual representation, where the x-axis label ‘t-1’ indicates a lagged value.

Figure 4a: Estimated Standard Errors of Coefficients for Equation (15)

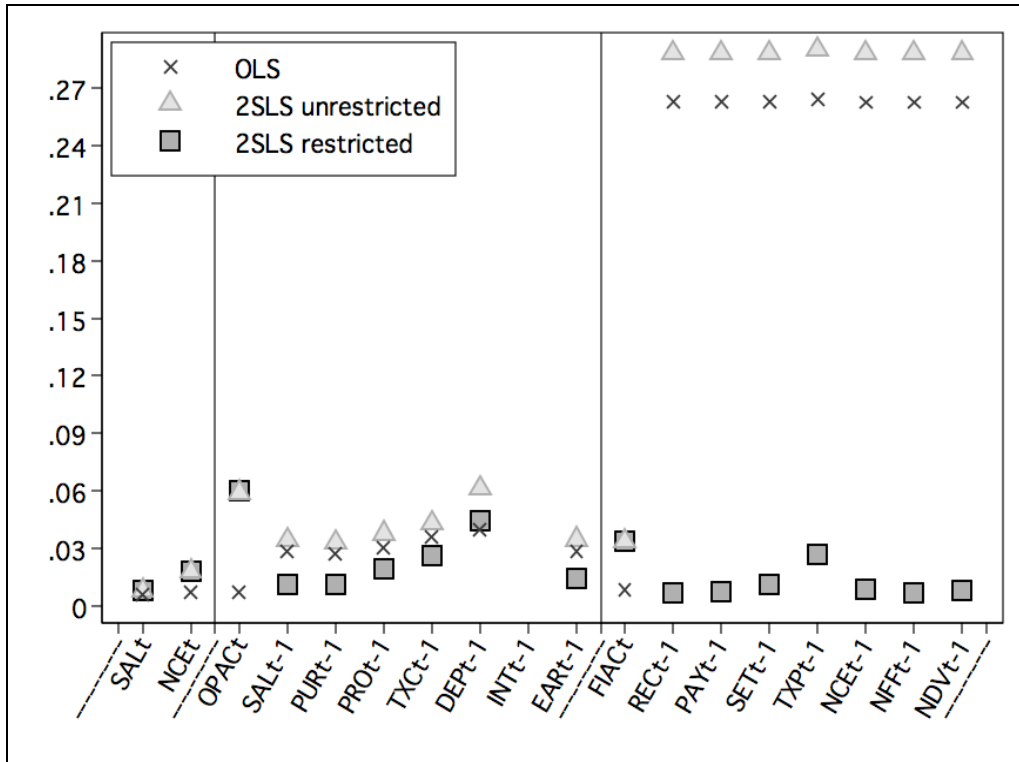
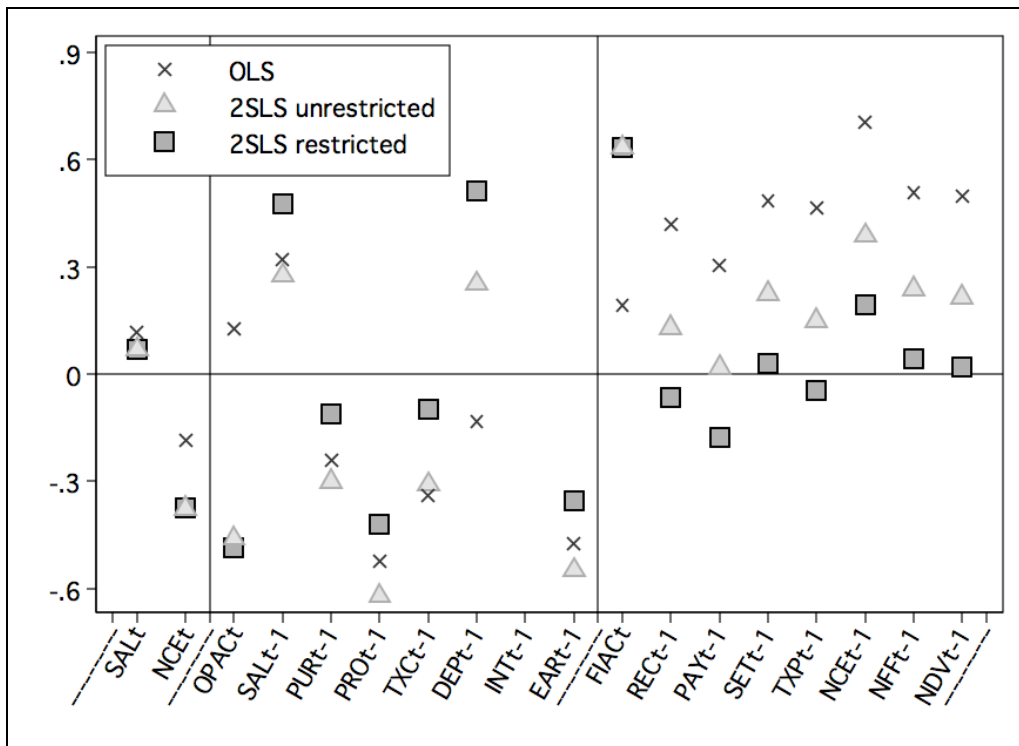


Figure 4b: Estimated Coefficients for Equation (15)



Note: Estimation is for the Total sample of firm-years. The values of the estimated coefficients and their standard errors are reported in Table 4. OLS results are contrasted to the restricted and unrestricted versions of the 2SLS estimator. The left hand side panel indicates the regression of $OPAC_{it}$, the middle panel indicates the regression of $OPAC_{it}$ and the right hand side panel the regression of NCE_{it} . The x-axis label 't' indicates a contemporaneous variation (*i.e.* an endogenous variable) and 't-1' indicates a lagged value. The variable INT_{it-1} is dropped due to multicollinearity.

Table 1: Final Working Sample, per Member State and Industry

	BASIC		CYCGD		CYSER		GENIN		NCYCG		NCYSR		Total	
	<i>N</i>	<i>I</i>	<i>N</i>	<i>I</i>	<i>N</i>	<i>I</i>	<i>N</i>	<i>I</i>	<i>N</i>	<i>I</i>	<i>N</i>	<i>I</i>	<i>N</i>	<i>I</i>
Austria	116	15	44	7	40	4	100	14	73	11	8	2	381	53
Belgium	101	9	0	0	37	4	34	3	26	4	29	3	227	23
Denmark	168	28	97	15	101	17	97	17	134	17	13	2	610	96
Finland	97	13	48	8	106	19	160	26	91	14	33	9	535	89
France	273	31	312	36	506	75	276	36	359	49	83	10	1,809	237
Greece	154	26	60	10	45	9	23	5	97	14	8	1	387	65
Ireland	39	7	13	1	16	7	0	0	43	8	0	0	111	23
Italy	135	17	122	19	93	23	90	17	29	7	42	4	511	87
Netherlands	111	13	68	11	224	28	158	18	89	10	51	9	701	89
Portugal	120	12	35	3	69	9	44	4	34	4	44	5	346	37
Spain	148	22	45	8	63	14	51	8	79	11	26	4	412	67
Sweden	155	17	115	14	295	61	317	47	145	37	28	8	1,055	184
UK	1,053	98	774	73	3,097	408	1,268	118	893	116	186	30	7,271	843
Total	2,670	308	1,733	205	4,692	678	2,618	313	2,092	302	551	87	14,356	1,893

Note: *N* is the total firm-years and *I* is the number of firms. BASIC is Basic Industries, CYCGD is Cyclical Consumer Goods, CYSER is Cyclical Consumer Services, GENIN is General Industries, NCYCG Non-Cyclical Consumer Goods, and NCYSR is Non-Cyclical Consumer Services. The unobserved jurisdiction-specific and industry-specific effects implied by these strata are taken incorporated in both models that we estimate (see equations 12 and 15) through the inclusion of appropriate fixed effects.

Table 2: Range of Variation, Arithmetic Means and Double-Entry Bookkeeping

EQLA Variables	Mean	Min	Max	Std.Dev.	N
SAL [-] <i>Sales Revenue</i>	-0.2336	-0.4081	0	0.0375	14,356
REC [+] <i>Customer Receipts</i>	0.2280	0	0.3711	0.0384	14,356
Excess of Sales over Customer Receipts (<i>i.e.</i> deferrals)	-0.0056	-0.3837	0.3618	0.0263	14,356
PUR [+] <i>Purchases</i>	0.2096	0	0.3676	0.0315	14,356
PAY [-] <i>Supplier Payments</i>	-0.2056	-0.4011	0	0.0343	14,356
Excess of Purchases over Supplier Payments (<i>i.e.</i> accruals)	0.0040	-0.3240	0.3575	0.0215	14,356
Excess of Net Sales over Net Purchases	-0.0016	-0.3843	0.3049	0.0234	14,356
PRO [-] <i>Cancellations</i>	-0.0063	-0.3635	0	0.0139	10,261
PRO [+] <i>Other Non-Financial Liabilities Recognised</i>	0.0092	0	0.2141	0.0187	4,095
Excess of Recognition of Provisions over Cancellations	-0.0018	-0.3635	0.2141	0.0169	14,356
SET [+] <i>Reimbursements</i>	0.0097	0	0.2930	0.0185	9,622
SET [-] <i>Settlements of Non-Financial Liabilities</i>	-0.0109	-0.2303	0	0.0212	4,734
Excess of Settlements over Reimbursements	0.0029	-0.2303	0.2930	0.0217	14,356
Excess of Net Cancellations over Net Reimbursements	0.0011	0.2571	0.2871	0.0145	14,356
TXP [+] <i>Tax Refunds</i>	0.0035	0	0.3461	0.0145	1,793
TXP [-] <i>Tax Payments</i>	-0.0063	-0.1851	0	0.0062	12,563
Excess of Tax Payments over Tax Refunds	-0.0051	-0.1851	0.3461	0.0084	14,356
TXC [-] <i>Tax Rebates</i>	-0.0049	-0.1871	0	0.0131	1,402
TXC [+] <i>Tax Charges</i>	0.0064	0	0.1758	0.0064	12,954
Excess of Tax Charges over Tax Rebates	0.0053	-0.1871	0.1758	0.0080	14,356
Excess of Net Tax Charges over Net Tax Payments	0.0002	-0.2025	0.3480	0.0075	14,356
NCE [+] <i>Asset Disposals</i>	0.0191	0	0.2832	0.0336	1,312
NCE [-] <i>New Investments</i>	-0.0197	-0.3928	0	0.0279	13,044
Excess of New Investments over Asset Disposals	-0.0161	-0.3928	0.2832	0.0305	14,356
DEP [+] <i>Depreciation Expense</i>	0.0100	0	0.1580	0.0088	14,356
Net New Investments net of Depreciation Expense	-0.0061	-0.3910	0.2938	0.0284	14,356
NFF [-] <i>Debt Repayments</i>	-0.0234	-0.4747	0	0.0362	8,942
NFF [+] <i>Proceeds from Issuing Debt, plus Interest Accrued</i>	0.0243	0	0.4665	0.0365	5,414
Excess of Proceeds over Debt Repayments	-0.0054	-0.4747	0.4665	0.0430	14,356
INT [+] <i>Interest Charges</i>	0.0050	-0.2138	0	0.0072	14,356
Net Debt Repayments plus additional Interest Charges	-0.0004	-0.4747	0.4667	0.0430	14,356
EAR [-] <i>Losses</i>	-0.0354	-0.2574	0	0.0503	2,654
EAR [+] <i>Profits</i>	0.0148	0	0.3632	0.0147	11,702
More Profit-years than Loss-years	0.0055	-0.2574	0.3632	0.0319	14,356
NDV [+] <i>New Capital Contributions</i>	0.0308	0	0.4571	0.0575	4,213
NDV [-] <i>Dividends Distributions</i>	-0.0109	-0.4592	0	0.0187	10,143
Excess of Dividend Distributions over New Capital	0.0013	-0.4592	0.4571	0.0397	14,356
Profits net of Dividends	0.0068	-0.4681	0.4257	0.0405	14,356
OPAC [+] <i>Accrual</i>	0.0184	0	0.2976	0.0221	10,719
OPAC [-] <i>Deferral</i>	-0.0165	-0.4117	0	0.0275	3,637
Excess of Total Operating Accruals over Deferrals	0.0095	-0.4117	0.2976	0.0281	14,356
FIAC [+] <i>Deferral</i>	0.0165	0	0.4117	0.0275	3,642
FIAC [-] <i>Accrual</i>	-0.0184	-0.2976	0	0.0221	10,714
Excess of Total Investment-Financing Accruals over Deferrals	-0.0095	-0.2976	0.4117	0.0281	14,356

Note: All variables are deflated by the summation of the absolute value of all fourteen variables that define the EQLA (see Figure 1). Double-entry bookkeeping applies on the sample means. Min and Max indicate the range of variation, Std.Dev. the standard deviation and *N* the total number of observations. See the Note below Table 1 for explanation of signs [-] and [+]. Where the total sample is partitioned into net flows, the sub-sample with net positive [+] effect contains all zero values. The 'Excess' mean is calculated over the absolute differences between two means from equally sized samples. The 'Excess' over two unequally sized samples (due to the separation at zero) simply indicates computations over the total sample. Observations with zero values are included in the positive sample.

Table 3: Estimation of Equation (12)

	OLS	OLS	SUR unrestricted	SUR restricted
OPAC_{it}				
SAL_{it-1}	-0.0288 *** <i>0.0107</i>		-0.0050 <i>0.0092</i>	-0.0517 *** <i>0.0039</i>
REC_{it-1}	-0.0609 *** <i>0.0090</i>		0.0567 *** <i>0.0073</i>	0.0219 *** <i>0.0038</i>
PUR_{it-1}	-0.1620 *** <i>0.0134</i>		0.0171 * <i>0.0096</i>	-0.0300 *** <i>0.0046</i>
PAY_{it-1}	-0.1764 *** <i>0.0110</i>		0.0368 *** <i>0.0076</i>	0.0015 <i>0.0043</i>
PRO_{it-1}	-0.0003 <i>0.0193</i>		0.0022 <i>0.0105</i>	-0.0450 *** <i>0.0062</i>
SET_{it-1}	0.0664 *** <i>0.0145</i>		0.0685 *** <i>0.0081</i>	0.0334 *** <i>0.0051</i>
DEP_{it-1}	0.8264 *** <i>0.0291</i>		0.1500 *** <i>0.0123</i>	0.1031 *** <i>0.0090</i>
FIAC_{it}				
NCE_{it-1}		0.0835 *** <i>0.0095</i>	0.0646 *** <i>0.0076</i>	0.0287 *** <i>0.0041</i>
TXC_{it-1}		-0.2048 *** <i>0.0357</i>	0.0009 <i>0.0143</i>	-0.0554 *** <i>0.0101</i>
TXP_{it-1}		-0.0235 <i>0.0351</i>	0.0595 *** <i>0.0129</i>	0.0154 <i>0.0102</i>
INT_{it-1}		-0.2603 *** <i>0.0323</i>	0.0106 <i>0.0136</i>	-0.0424 *** <i>0.0097</i>
NFF_{it-1}		-0.0207 ** <i>0.0082</i>	0.0587 *** <i>0.0074</i>	0.0230 *** <i>0.0038</i>
EAR_{it-1}		0.0389 *** <i>0.0104</i>	0.0104 <i>0.0095</i>	-0.0371 *** <i>0.0041</i>
NDV_{it-1}		0.0090 <i>0.0091</i>	0.0703 *** <i>0.0075</i>	0.0346 *** <i>0.0038</i>
AIC	-63294.68	-62387.62	-210743.95	-210517.15
BIC	-63105.38	-62198.32	-210501.65	-210282.42
Harvey-Phillips			89064.52	21587.17
Breusch-Pagan			13019.91	13017.77

Note: All models are estimated over the sample of 14,356 firm-years. For space considerations, we omit the output from the estimated model intercept, the jurisdiction specific and the industry specific intercepts. The parameters of interest are the estimated structural coefficients (see equation 12). OLS indicates single equation Ordinary Least Squares estimation, SUR-unrestricted indicates estimation of a system of seemingly unrelated regressions absent of the double-entry constraint (last row in equation 12), and SUR-restricted indicates the inclusion of the double-entry constraint. The estimated parameters are reported in regular fonts and the estimated standard errors of coefficients in italics. Significance is indicated with one star * at the 90% level, two stars ** at the 95% and three stars *** at the 99% level. AIC is the Akaike Information Criterion and BIC is Schwartz's Bayesian Information Criterion. Both Harvey-Phillips (1982) and Breusch-Pagan (1980) tests reject the null of contemporaneous independence amongst the cross-equation error terms, at the $p < 0.0001$ levels.

Table 4: Estimation of Equation (15)

	OLS	OLS	OLS	2SLS unrestricted	2SLS restricted
OPAC_{it}					
SAL_{it}	0.1167 *** 0.0062			0.0694 *** 0.0083	0.0694 *** 0.0083
NCE_{it}	-0.1870 *** 0.0075			-0.3764 *** 0.0183	-0.3764 *** 0.0183
SAL_{it}					
OPAC_{it}		0.1250 *** 0.0074		-0.4611 *** 0.0593	-0.4862 *** 0.0600
SAL_{it-1}		0.3207 *** 0.0286		0.2757 *** 0.0346	0.4753 *** 0.0112
PUR_{it-1}		-0.2419 *** 0.0272		-0.3012 *** 0.0332	-0.1116 *** 0.0116
PRO_{it-1}		-0.5231 *** 0.0306		-0.6216 *** 0.0380	-0.4217 *** 0.0195
TXC_{it-1}		-0.3401 *** 0.0359		-0.3093 *** 0.0432	-0.0997 *** 0.0265
DEP_{it-1}		-0.1345 *** 0.0396		0.2527 *** 0.0614	0.5129 *** 0.0447
INT_{it-1}					
EAR_{it-1}		-0.4747 *** 0.0284		-0.5492 *** 0.0349	-0.3553 *** 0.0146
NCE_{it}					
FIAC_{it}			0.1930 *** 0.0083	0.6328 *** 0.0337	0.6345 *** 0.0336
REC_{it-1}			0.4191 0.2626	0.1295 0.2882	-0.0647 *** 0.0067
PAY_{it-1}			0.3039 0.2627	0.0174 0.2883	-0.1769 *** 0.0075
SET_{it-1}			0.4835 * 0.2626	0.2247 0.2881	0.0306 *** 0.0112
TXP_{it-1}			0.4659 * 0.2641	0.1496 0.2900	-0.0451 * 0.0268
NCE_{it-1}			0.7033 *** 0.2625	0.3868 0.2883	0.1926 *** 0.0091
NFF_{it-1}			0.5075 * 0.2625	0.2373 0.2880	0.0432 *** 0.0069
NDV_{it-1}			0.4969 * 0.2625	0.2145 0.2880	0.0204 ** 0.0082
AIC	-63049.27	-66651.05	-62098.15	-185884.50	-185469.30
BIC	-62897.83	-66461.75	-61908.86	-185354.50	-184954.40
DWH / H	190.49	144.20	220.90	1372.57	1089.01
Shea – BJB	0.0049 and 0.0015	0.0000	0.0000		
Pagan & Hall	1194.22	298.00	1084.73		

Note: All models are estimated over the sample of 14,356 firm-years. For space considerations, we omit the output from the estimated model intercept, the jurisdiction specific and the industry specific intercepts. The parameters of interest are the estimated structural coefficients (see equation 15). OLS indicates single equation ordinary least squares estimation, 2SLS-unrestricted indicates estimation of an integrated system of simultaneous regressions with 2-Stage Least Squares absent of the double-entry constraints (*i.e.* without the last two rows in equation 15), and 2SLS-restricted indicates the inclusion of the two double-entry constraints. The estimated parameters are reported in regular fonts and the estimated standard errors of coefficients in italics. Significance is indicated with one star * at the 90% level, two stars ** at the 95% and three stars *** at the 99% level. A period ‘.’ indicates that the explanatory variable INT_{it-1} is dropped from the estimation of the second equation. AIC is the Akaike Information Criterion and BIC is Schwartz’s Bayesian Information Criterion. DWH / H indicates two separate tests: the first three columns report the Durbin-Wu-Hausman χ^2 test that indicates significant endogeneity of OPAC_{it}, SAL_{it} and NCE_{it} in their respective regressions, resulting to significant inconsistency of the OLS estimator at p -values<0.0001; the last two columns report the Hausman (1978) χ^2 test that indicates the superiority of the consistent 2SLS estimator against the 3SLS estimator, at p -values<0.0001. Shea – BJB indicates the insignificant difference between Shea’s (1997) multivariate IV-partial- R^2 and Bound, Jaeger and Baker (1995) standard IV-partial- R^2 for each one of the endogenous variables, hence indicating strong instrumental relevance of instruments employed by 2SLS. Pagan & Hall (1983) reports a chi-square test that rejects the null of homoscedasticity specifically found in IV-related estimators.