IMPROVING CASH FLOW STATEMENT BASED ON INTERNATIONAL STANDARDS

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DOI: 10.5958/2249-7137.2022.00616.4

ABSTRACT

This article describes the procedure for preparing a cash flow statement using the direct method based on International Financial Reporting Standards. In our country, only the direct method is used in the preparation of the statement of cash flows, so the introduction of the direct method by us will serve to increase the confidence of investors in the financial statements.

KEYWORDS: *Cash, Cash Equivalents, Cash Flow Statement, Direct Method, Operating Activities, Investment Activities, Financial Activities, Financial Reporting, Customer Receipts, Payments To Suppliers For Goods And Services, Employee Payments, Income Tax Payments On.*

INTRODUCTION

The main attempt to prepare financial statements for business entities is the statement of financial position. An entity shall apply the same accounting policies in its initial financial statements in accordance with IFRS and in all periods covered by its initial financial statements in IFRS. The business entity should not apply other previously applicable editions of IFRSs. A business entity may apply a new IFRS, the application of which is not yet mandatory, when the early application of this IFRS is permitted.

Except as otherwise provided, the entity shall include in its initial statement of financial position under IFRS:

(a) Recognize all assets and liabilities that are required to be recognized under IFRSs;

(b) IFRSs should not recognize assets and liabilities that would not be recognized;

(c) items that are recognized as a single type of asset, liability or equity under the previous IFRS but recognized as an asset, liability or other type of equity under IFRSs should not be reclassified; and

(g) Apply IFRSs in the valuation of all recognized assets and liabilities. **[1]**

The accounting policies applied by an entity in its initial statement of financial position under IFRS may differ from the accounting policies applied by it on the same date under the previous IFRS. The resulting adjustments arise as a result of operations and events that occur before the date of transition to IFRS. Therefore, an entity shall recognize these adjustments in retained earnings (or, if appropriate, in another category of equity) at the date of transition to IFRSs.

Accordingly, it provides an opportunity to prepare a statement of cash flows after the preparation of the statements of financial position and profit and loss.

The need to prepare financial statements in accordance with International Financial Reporting Standards Presidential Decree No. PP-4611 of February 24, 2020 determined on the basis of the decision. **[2]**

Therefore, it is determined that the cash flow statement should be prepared in accordance with international standards.

In international practice, investments focus on the statement of cash flows, which is one of the forms of financial reporting.

The reason is that the amount of money entering and leaving the subject is of great interest to them.

Literature review

Economists from both foreign and CIS countries have studied the issues of improving the procedure for compiling and submitting cash flow statements. Among them are A.Arens, B.Nidlz, V.Savitskaya, M.Bocharev, K.Lobbek, P.Kamyshanov, A.Ionova and others. Scientists of the republic have also achieved some results in the development and implementation of the procedure for compiling and submitting cash flow reports. In this regard, it has been studied in the scientific articles and pamphlets of the leading economists of the republic I.T.Abdukarimov, M.Q.Pardaev, A.S.Sotivoldiev, A.V.Vahobov, M.M.Tolahojaeva, A.K.Ibragimov, A.H.Pardaev, O.Kuljanov and others. However, these procedures do not disclose the procedure for preparing the statement of cash flows using the direct method in accordance with International Financial Reporting Standards.

Research methodology. This paper provides analysis, grouping, analysis, synthesis, induction, deduction, comparative comparison, data collection, and economic research of selected research literature in order to reveal the procedure for compiling a cash flow statement using the direct method based on International Financial Reporting Standards. widely used as mathematics.

Analysis and discussion of results (main part). When used in conjunction with other financial statements, a cash flow statement allows users to assess changes in the entity's net assets, their financial structure (liquidity and solvency) and their ability to influence the amount and timing of its cash flows to adapt to changing opportunities and conditions. provides.Cash flow information is useful in assessing an entity's ability to generate cash and cash equivalents, and allows users to develop models for estimating and comparing the present (present) value of future cash flows for different entities. **[3]**

The cash flow statement allows users to assess changes in the entity's financial position, providing them with information about how much cash was received and how much was spent during the reporting period. The cash flow statement divides cash receipts and payments into three main categories: operating, investing, and financing activities.

The amount of cash flows arising from operating activities - the business entity, without resorting to external sources of financing, to pay off debts arising from its operating activities, to maintain its ability to conduct operations, to pay dividends and new investments is a key indicator that reflects the extent to which it has generated enough cash flows to do so. Information on the individual components of cash flows arising in the pre-operating period is useful, in conjunction with other information, in forecasting future cash flows from operating activities.

Display of cash flows from operating activities [4] (not disclosed in IFRS):

It is recommended that business entities report cash flows from operating activities using the direct method. The use of the indirect method provides information that may be useful in estimating future cash flows and that is not reflected in the use of the indirect method. When the direct method is used, information on gross cash receipts and the main categories of gross cash payments can be obtained in the following ways:

(a) The business entity's accounting data; or

(b) By adjusting the sales proceeds, cost of sales (interest and similar income for financial institutions and interest expenses and similar expenses) and other items reported in the statement of comprehensive income to:

(i) changes in inventories and operating receivables and payables during the period;

(ii) Other non-cash items; and

(iii) Other items that generate cash flows from investing or financing activities.

The business entity discloses the cash flows arising from operating activities using the following:

The direct method by which the main types of gross receipts and gross payments are disclosed;

Indirect method. Under this method, net income or loss is adjusted for changes in current assets and liabilities , unreliable transactions, as well as income and losses incurred as a result of operating investment or financial activities to all the basic cases. **[5]**

IFRS: According to IAS 7, information about an entity's cash flows is useful to users of financial statements as a basis for assessing an entity's ability to generate cash and cash equivalents and the need to use those cash flows. The cash flow statement should show cash flows for the period, classified by operating, investing and financing activities.

Consistent categorization:

- Non-cash transactions are not included;
- Use of the straight or curved method IFRS 7 recommends the use of the straight method;
- Allows financial institutions to prepare reports on a NETTO basis.

Compilation of a statement of cash flows to business entities does not follow the principle of calculation. Therefore, in order to compile a cash flow statement directly, the following indicators should be considered to determine the cash flows from operating activities:

1. Revenue from customers;
2. Payments to suppliers for goods and services;
3. Payments to employees;
4. Income tax payments.

Cash flow statements are primarily based on international financial statements and profit and loss statements.

TABLE 1 APPLICATIONS FROM ABC'S STATEMENT OF FINANCIAL POSITION

	Per year	By the end of the year
Assets:		
Accounts receivable from customers	55,000	47,000
Reserves	110,000	144,000
Advances for goods and services	5,000	1,000
Accounts payable to suppliers	43,000	50,000
Liabilities for wages	9,000	10,000
Current income tax payable	5,000	3,000

Source: ** data compiled by the authors*

TABLE 2 APPLICATIONS FROM ABC PROFIT AND LOSS STATEMENT

Profit or loss section	
Tushum	698,000
Cost of sales	457,000
Current expenses	116,000

Source: ** data compiled by the authors*

TABLE 3 ADDITIONAL INFORMATION FOR THE YEAR

Depreciation of fixed assets	37,000
Losses from the sale of fixed assets	3,000
Labor costs	58,000
Current income tax	18,000

Source: ** data compiled by the authors*

To determine the above indicators, we cite the formula of each indicator [6]:

1. Receipts from customers.

Decrease (increase) of accounts ∓ morf deviecer secnavda fo (esaercni) esaerceD elbaviecer customers = Receipts from customers

Receipts from customers = 698000 + 8000 = 706000

In the above formula, revenue is derived from the profit and loss statement, and the receivable and advances from customers are obtained through the statement of financial position.

2. Payments to suppliers for goods and services.

Payments to suppliers = cost of goods sold + current costs - depreciation costs - losses from the sale of fixed assets - labor costs ∓Decrease (increase) of reserves Decrease (increase) ∓of invoices)

Payments to suppliers
$=457000 + 116000 - 37000 - 3000 - 58000 + + 34000 - 4\,000 - 7\,000 = 498000$

3. Payments to employees.

Payments to employees = labor costs ± decrease (increase) in wage liabilities

Employee payments = 58000 - 3000 = 55000

4. Income tax payments.

Profit tax payments = current income tax expense ± decrease (increase) of current tax payable

Income tax payments = 18000 + 2000 = 20000

The above formulas determine the net cash flows from operating activities of the cash flow statement. Representation of cash flows on a pure basis:

Cash flows from operating, investing or financing activities may be reported on a net basis:

A) cash receipts and payments made on behalf of customers, if the cash flows reflect the activities of the customer, not the business entity; and

B) cash receipts and payments for fast-moving, bulky and short-lived items.

Examples of cash receipts and payments referred to in paragraph 22 (b) are:

(a) principal amounts due to credit card holders;

(b) The purchase and sale of investments; and

(c) Other short-term debt, such as loans with a maturity of three months or less. [7]

It is important to disclose cash flows from investing activities separately, as such cash flows reflect how much is spent on resources intended to generate future income and cash flows. Only expenses that result in the recognition of an asset in the statement of financial position can be classified as an investment activity. To determine the cash flow of investment activities:

- Basic engine and other long term assets buy get and to sell ;
- The focus will be on buying and selling financial investments.

It is important to specify the cash flows arising from financing activities because it is useful for the parties financing the entity to know in advance the requirements for future cash flows. Cash flows from financing activities include:

- Cash proceeds from the issuance of shares or other equity instruments;
- Payments to property owners for the purchase or disposal of shares of the enterprise;
- Debt settlement;
- Interest payments;

- Dividend payments.

The business entity must specify in the report the main categories of gross cash receipts and gross cash payments arising from investment and financial activities. Cash flows from the following operating, investing or financing activities may be reported on a net basis:

(a) cash receipts and payments made on behalf of customers, if the cash flows reflect the activities of the customer, not the entity; and

(b) Cash inflows and outflows on fast-moving, bulky and short-lived items.

Cash flows from the following activities of a financial institution may be reported on a net basis [8]:

(a) Cash receipts and payments for the receipt and return of deposits with a fixed maturity date;

(b) Placement and withdrawal of deposits in other financial institutions; and

(c) The repayment of loans and credits to customers and the repayment of loans and credits.

The sum of the operating, investment and financial activities of a cash flow statement produces a net increase or decrease in cash and cash equivalents. Equity investments are not included in cash equivalents, except when they are, in fact, cash equivalents, such as in the case of preferred shares purchased shortly before maturity and with a clear maturity. (Not included in BHMS 9) **[9]**

The difference between cash and cash equivalents at the beginning and end of the period allows us to determine the effect of changes in cash flows on exchange rates. Cash flows denominated in a foreign currency are presented in accordance with IFRS 21 Impact Changes in Exchange Rates. In this case, it is allowed to use the exchange rate, which is approximately equal to the actual exchange rate. For example, the weighted average exchange rate for a given period may be used to reflect transactions in a foreign currency or to transfer the cash flows of a foreign subsidiary from one currency to another. However, in accordance with IFRS 21, a foreign subsidiary is not permitted to use the exchange rate at the end of the reporting period when converting cash flows into a functional currency.

Based on the above, the following is a direct cash flow statement:

TABLE 4 CASH FLOW STATEMENT BY USING DIRECT METHOD

Cash flow statement **20__ years for the period from 1_____ to 1_____**	
Cash flows from operating activities	
Revenue from sales	+ 706 000
Payments to suppliers	- (498,000)
Payments to employees	- (55,000)
Income tax payments	- (20,000)
Status of cash from operating activities	+ 133,000
Cash flows from investing activities	
Acquisition of fixed assets	- (220,000)
Sale of fixed assets	+ 5,000
Purchase of securities	- (72,000)

Sale of securities	+ 103,000
Status of cash from investment activities	- (184,000)
Cash flows from financing activities	
Proceeds from the publication of ordinary shares	+ 150,000
Receipt of bank loans	+ 100,000
Repayment of bank loans	- (50,000)
Interest payments	- (23,000)
Dividend payments	- (94,000)
Status of cash flows from financing activities	+ 83,000
Net changes in cash position	+ 32,000
Cash per year	15,000
Cash at the end of the year	47,000

Source: ** data compiled by the authors*

CONCLUSIONS AND SUGGESTIONS

IFRS is used in more than 166 countries. In Uzbekistan, the following organizations are required to keep records and report on the basis of IFRS:

- More than 2,000 joint-stock companies, commercial banks, insurance companies and large taxpayers;

- Step-by-step - state-owned enterprises and state-owned enterprises.

These organizations must have at least three IFRS-certified staff in the accounting services. **[10]**

In the preparation of financial statements, the process of implementation is based on the principle of calculation, but for the statement of cash flows, the principle of calculation is not required. Accordingly, it is advisable to prepare a cash flow statement using the direct method, using extensive international experience. As a result, investors will have more confidence and interest in financial statements .

In determining the operating, investing and financing activities of a cash flow statement, it is appropriate that they consist of:

1. Operating activities:

- Sale of products, goods and services;

- Payments to suppliers of goods and services;

- Royalties (patents, copyright fees, etc.), awards of various kinds, interest income, commissions and other income;

- Payments to employees of the enterprise, operating expenses;

- Decrease in inventories;

- Increase in inventories;

- Receipt of money on trade and brokerage transactions;

- Interest paid;

- Increase in current liabilities, including income tax not included in investment and financial activities;

- Decrease in current liabilities, including income tax not included in investment and financial activities;

- Free expenses:

a) Depreciation of fixed assets and intangible assets, reduction of natural resources

b) Depreciation of debt securities;

- Free transactions:

a) Amortization of interest on debt securities

2. Investment activity:

- Proceeds from the sale of land, buildings, equipment, intangible and other long-term assets;

- Payments for the purchase of land, buildings, equipment, intangible assets (eg patents) and other long-term assets, payments for capital and development work, as well as payments for land, buildings and equipment created by the enterprise without the involvement of contractors;

- Proceeds from the disposal / sale of shares or other debt obligations of other entities (other than payments for liabilities that are considered cash equivalents or held for sale);

- Investments in shares or debt obligations of other enterprises. Payments for equity interests (excluding payments on payment documents that are cash equivalents or held for sale);

- Income from repayment of loans and repayment of debts to other enterprises (excluding interest income from operating activities);

- Payments and loans to other companies.

3. Financial activity:

- Proceeds from the issue of shares;

- Payments for privately purchased shares;

- Proceeds from loans (promissory notes, bonds, letters of credit and other short-term and long-term loans and borrowings);

- Repayment of loans and borrowings (excluding interest on operating loans);

- Payment of dividends to shareholders and other types of capital distribution. Proceeds from the issuance of shares are payments on financial lease obligations. **[11]**

The concept of "cash" has been redefined by economists: "Cash is a type of money that can be used to repay liabilities immediately. Current account balances in financial institutions, cash notes, coins, currencies, and cash." term deposits and cash receipts accepted by financial institutions ”.

Today, some errors are made in the preparation and practice of cash flow statements. This indicates that the report form is not perfectly formed. Therefore, it would be appropriate to make some changes to the Cash Flow Statement. That is, first, in the current reporting format, the entity's cash inflows and outflows are presented in the same reporting period. However, it is advisable to study, analyze and evaluate the various activities of enterprises over several years. It would also be useful to reflect two reporting periods in the form of a statement of cash flows, such as the balance sheet (Figure 1) and the statement of financial performance (Figure 2). Second, in the form of this current report, cash flows are classified into separate subdivisions for each type of activity.

In conclusion, the preparation and submission of a direct cash flow statement will increase the ability of companies to prepare their financial statements in accordance with international standards, and in practice will help to overcome the difficulties in compiling this form and determine the cash flow situation for investors. serves to bring.

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