European Journal of Business Startups and Open Society

Vol. 4 No. 6 (Oct - 2024): EJBSOS

http://inovatus.es/index.php/ejbsos

Specific Features of The Statement of Cash Flows in The Context of The Transformation to International Standards of Financial Accounting

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Abstract: This article provides suggestions and recommendations on the specific features of the cash flow statement in the context of the transition to international standards of digital financial accounting.

Key words: cash flow statements, appraise performance, track spending information, cash balance.

INTRODUCTION

International financial reporting standards require enterprises to disclose information that accurately describes the actual changes in their financial status. However, they do not mandate reporting cash flows related to movements in cash and cash equivalents. Net cash flows in this category are the actual focus of controlling and regulating a company's cash flows. Internal rotations, while shown in parentheses, do not impact the company's financial condition externally.

“The objective of general purpose financial reporting1 is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

Those decisions involve decisions about:

(a) Buying, selling or holding equity and debt instruments;

(b) Providing or settling loans and other forms of credit; or

(c) Exercising rights to vote on, or otherwise influence, management’s actions that affect the use of the entity’s economic resources.”[1]

However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

General purpose financial reports are not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.

[1] Conceptual Framework for Financial Reporting was issued by the International Accounting Standards Board in September 2010. It was revised in March 2018.

Accurate financial reports are an essential aspect of any business. Financial reports provide an overview of a company's financial performance, including its revenues, expenses, assets, liabilities, and equity. The accuracy of these statements is crucial as they are used by stakeholders to make informed decisions about the company's financial standing. In this section, we will discuss the importance of accurate financial reports and how they impact decision-maker's decision.

Literature review.

A statement of cash flows allows its users to assess changes in the financial position of a business entity, providing them with information about how much money has come in and how much money has gone out during the reporting period.*(NAS No. 9 is called "Statement of Cash Flows")*

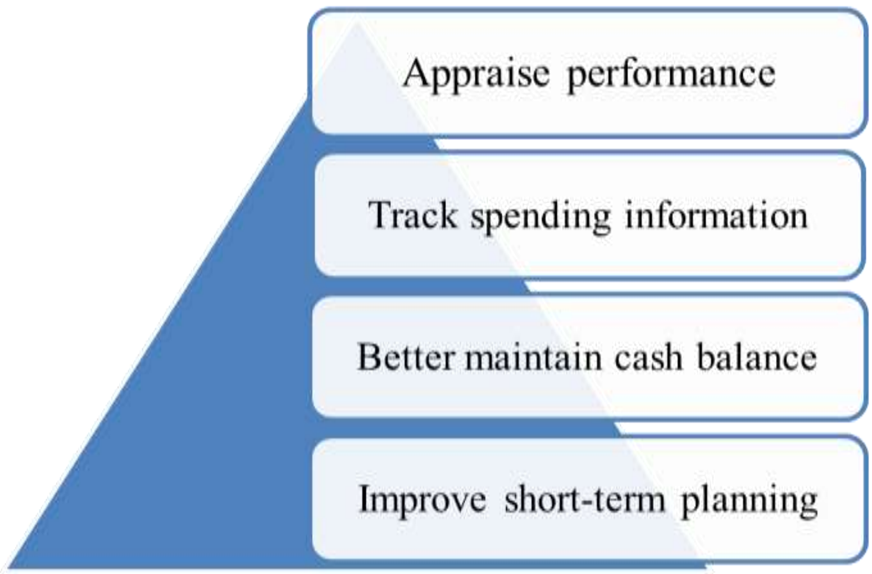
Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.*(IFRS 7 Cash Flow Statements)*

Research methodology.

The research used induction, deduction, systematic and comparative analysis, grouping, experiment, adaptive methods, integrated approaches, analysis and approval of international experiences on the issues of asset impairment calculation and improvement of methods.

Analysis and discussion of results

Successful businesses — in order to truly be successful — need to have the sufficient amount of cash required to operate. Constructing an accurate cash flow statement will bring a series of key benefits for your business, including details around spending, more information to help you to plan in the short term, and more. Some of the major benefits of a cash flow statement are as follows:



1. Pic. Benefits of a cash flow statement[2]

[2] Systematized by the author

Appraise performance. A cash flow statement can be an effective way for management to evaluate the overall performance of the company, or even individual teams/sectors of the business. This can be done by comparing the cash flow statements with projections — any significant differences in these metrics can then be investigated in order to determine where the fault lies.
Track spending information. A cash flow statement for your business will give you one of the clearest images possible of what payments your company makes to various parties. From suppliers to creditors, there is always money going out of a business.
Losing track of the outs of your company can prove devastating for its long-term health and viability if left unchecked for a prolonged period of time.

Your cash flow statement will allow you to paint a clear picture of your payments. It will also show any transactions paid in cash that will therefore not be reflected in many other forms of financial statement.

Better maintain cash balance. An accurate and up-to-date cash flow statement will help in ensuring that your company maintains a healthy cash balance.

A successful business is an organized one. Keeping a clear eye on your balance to ensure that there is not too much or too little money in reserve is vital. Excess money in reserve would likely be better utilized to make worthwhile investments or buy vital resources such as additional inventory. Conversely, a major shortage of money in reserve would inhibit your ability to operate.

However, keeping on track and ensuring you always have a clear idea of your company cash balance will ensure that you remain ahead of any potential situation, and can always act ahead accordingly. For example, if you were struggling with cash flow, if you are aware of the situation, you may be able to proactively seek sources to borrow vital funds needed to continue your operations.

Improve Short-Term Planning. Your company cash flow statement is a vital tool utilized by businesses around the world; businesses of all shapes, sizes, and sectors. It will clearly state whether the companies in question currently have the sufficient funds necessary to operate optimally. This information will allow you to plan ahead for any short-term obligations on the horizon. Things like upcoming payments to a regular supplier or creditor.

With an accurate cash flow statement you will be able to analyses your history of incomings/outgoings and plan accordingly — management can utilize a cash flow statement to make plans and co-ordinate the operation.

Ultimately, the limitations of a cash flow statement boils down to the fact that cash flow is not the be all and end all of if your business is successful or not. The best use of a cash flow statement is when it's paired with an income statement and balance sheet, the other commonly used, main forms of financial statements.

A negative cash flow shown in a cash flow statement should not automatically lead to you sounding the alarm and preparing to abandon ship. A negative cash flow can, in some situations, be positive. For example, it could be a sign of an ambitious company looking to expand into new locations/regions.

Your cash flow statement is much better used to analyses any trends in your cash flow from one period to another, to give you a gist of if an intervention is necessary.

Effective [cash flow management] can be a vital step for your business in ensuring that performance is optimal and everybody is pulling in the right direction. Cash flow difficulties can be crippling for a business, staying on top of it and ensuring that everything is as it should be is vital for the long-term viability and success of the company.

Many equate the success of a company to its reported profits. While profits are good, they do not adequately represent the financial standing of a firm. It is quite possible for a company to report profits but go out of business. It is also possible for a company to be profitable and not be able to grow, secure financing, or attract investors. There are a couple of reasons why cash flows are a better indicator of a company’s financial health.

Profit figures are easier to manipulate because they include non-cash line items such as depreciation expenses or goodwill write-offs. Under generally accepted accounting principles (GAAP) businesses can use non-cash expenses such as depreciation and amortization to offset large capital expenditures.

Cash flow statements, on the other hand, provide a more straightforward report of the cash available. In other words, a company can appear profitable “on paper” but not have enough actual cash to replenish its inventory or pay its immediate operating expenses such as lease and utilities.

If a company cannot purchase new inventory, it will slowly become unable to generate new sales. If a company cannot afford its operating expenses, it will eventually go out of commission. Either way, “Cash is King” in keeping a business alive.

Another important consideration is that profit reports are based on sales income. The main issue here is that the recorded revenue is often greater than the amount of actual cash received from sales. When sales are on credit, the collection period on accounts receivable can last 2-3 months. This means that the company needs to have enough cash on hand to float its operations for the duration of the collection period.

Using the previous examples, this means having the cash equivalent of 2-3 months’ worth of operating expenses and inventory purchases on hand. In the likely event that a firm also makes purchases on credit, accounts payable become another important factor to consider. To be sustainable, a business has to pay special attention to its cash cycle and make sure to cover the cash gap between receivables and payables.

If the business goes out of cash, operations will simply cease. This further illustrates why cash flows provide a better sense of the financial situation of a business.

Assuming that a firm has enough cash to maintain its current level of operation, most business owners want to grow their company. If cash is king in sustaining ongoing business operations, it becomes that much more vital when considering expansion. Sales growth is great… unless it results in the total depletion of cash. Companies should prepare for cash outlays to considerably exceed cash inflows during the early stages of expansion. In fact, to be able to generate a growth in sales, businesses must first be able to afford an expansion in capacity. This Companies should prepare for cash outlays to considerably exceed cash inflows during the early stages of expansion. Increased capacity can come in the form of additional personnel, equipment, new locations, more inventory, etc. Either way, the company has to be able to remain in operation until its cash flows stabilize and become positive.

Conclusion

Cash flow is a critical indicator of financial health as it shows how effectively money is managed within a business or personal finances. It helps assess the ability to meet financial obligations, invest in growth opportunities, and sustain day-to-day operations.

By analyzing cash flow, individuals and businesses can identify trends, anticipate cash shortages or surpluses, and make informed financial decisions. Positive cash flow allows for reinvestment, expansion, and financial stability, while negative or insufficient cash flow may require adjustments to spending, financing, or operations.

Overall, understanding a company's cash situation is crucial to making sound business decisions. Owners must strive to understand and always be in-touch with the cash aspect of their enterprise, regardless of the profits reported. Fortunately, business owners do not have to do it alone. They can work with their bookkeeper or accountant to review how cash circulates through their business.

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