



# THE ESSENCE OF THE CASH FLOW STATEMENT AND THE NECESSITY FOR IMPROVING ITS PREPARATION

Saidmurad Yahyoevich Atamurodov

Independent researcher,

Senior lecturer at the audit department of Tashkent State University of Economics, Uzbekistan

| Article history:  | Abstract:  |
|---|--|
| <b>Received:</b> 14 <sup>th</sup> June 2024<br><b>Accepted:</b> 8 <sup>th</sup> July 2024 | This article covers the essence of the cash flow statement and the need to improve its preparation. The regulatory framework for drawing up the cash flow statement is studied and conclusions are made. Based on international practice and experience, proposals and recommendations for improving the preparation of the cash flow statement are developed. |

**Keywords:** cash flow statement, operating activities, investment activities, financial activities, international financial reporting standards.

## INTRODUCTION

By the middle of the 60s of the XIX century, a general approach to the preparation of the cash flow statement was formed. The statement of cash flows provides information on the impact of the operational, investment and financial activities of an economic entity on its cash resources during a certain reporting period, and on changes in cash resources during this period.

The "Statement of Cash Flows" is one of the financial reporting forms maintained by enterprises in accordance with Article 22 of the Law "On Accounting" [1] and is prepared and presented based on the requirements of National Accounting Standard No. 9 "Statement of Cash Flows" [2], IAS 7 - Statement of Cash Flows [3], and the "Rules for Completing Financial Statements" [4]. This reporting form, together with other reporting forms, provides information that helps to evaluate and understand the company's ability to regulate cash flows in constantly changing external and internal conditions, enabling the modeling of the present value of future cash flows for comparative assessment purposes. It reflects changes in the company's most liquid assets and its financial structure (including liquidity and solvency).

## MATERIALS AND METHODS

According to the International Federation of Accountants (IFAC), the primary goal of the cash flow statement is to provide all investors and creditors with sufficient information about the cash flows of a company. The first cash flow statements appeared in American companies' financial reports based on the results of their 1962 financial and operational activities. The history of the cash flow statement dates back to 1863, when the Dowlais Ironworks company, after recovering from a crisis, produced a financial report showing profit but lacked cash to buy a new metal smelting furnace. To explain the lack of funds, one of the company's managers prepared a report he called a

comparative balance. This report revealed that the company had a large reserve, presumably from the considerable expenditure on purchasing equipment. This report served as the basis for modern cash flow statements. In 1971, the use of funds and reporting on their sources became mandatory under U.S. GAAP. The current form of the cash flow statement, dividing cash flows into operating, financial, and investing activities, was developed in the U.S. in 1988 [5]. Today, financial report preparers worldwide agree on the importance of disclosing revenue sources and the use of funds by companies, making the cash flow statement a standard part of financial reporting packages in most countries.

In 1992, the International Accounting Standards Committee (IASC) developed IAS 7 - Statement of Cash Flows, which came into effect in 1994. Reporting according to IAS 7 was made mandatory for entities, replacing the "Statement of Changes in Financial Position" which had been in use since 1977. In 2007, as a result of revising IAS 1, the IASB changed the title from the cash flow statement to the statement of cash flows" [5].

## MAIN PART

"The introduction of this reporting format and the implementation of accounting in business entities in the Commonwealth of Independent States (CIS) dates back to the early 1990s. In Russia, the cash flow statement first appeared in financial reporting in 1996. According to the Russian Ministry of Finance's order No. 31 of March 27, 1996, the standard form of the "Cash Flow Statement" (Form No. 4) was approved. By Order No. 217 of December 28, 2015, the "Cash Flow Statement" was aligned with the requirements of IAS 7 and its interpretations" [5].

In our republic, this reporting form has been repeatedly revised and updated by the former Ministry of Finance (now the Ministry of Economy and Finance), relying on international experience. This indicates the need to



improve this reporting form in line with international recommendations, considering the sector or industry in which enterprises operate. The cash flow statement provides information about the true financial condition of the company to managers, investors, shareholders, and creditors.

Despite a company generating significant revenue or profit during the reporting period, it may fail to meet its obligations to creditors due to a discrepancy between recognized income and actual cash flow. The statement reflects the actual cash inflows and outflows for the reporting period. Cash flows are closely linked to a company's ability to pay and liquidity, making it one of the critical factors affecting financial stability.

Currently, business entities in our republic prepare their cash flow statements based on National Accounting Standard No. 9 "Statement of Cash Flows" and IAS 7 "Statement of Cash Flows," using this information to plan for future prospects. The "Statement of Cash Flows" reflects data on the inflows and outflows of cash generated from the company's operational, investing, and financing activities during the reporting period.

Clause 3 of Uzbekistan's National Accounting Standard No. 9 states: "An economic entity shall prepare a statement of cash flows in accordance with the requirements of this standard and present it as part of the financial reporting for each reporting period" [2]. However, the format of the report approved by the Ministry of Finance of the Republic of Uzbekistan under Order No. 140 dated December 27, 2002, does not fully align with the instructions in Clauses 2, 4, 14, 15, 26, 27, and 28 of National Accounting Standard No. 9. While the standard divides the report into three sections—operational, investing, and financing activities—the current report divides it into operational activities, investing activities, financing activities, and taxation. This indicates that the "Statement of Cash Flows" does not fully comply with either the national or international accounting standards.

Based on international practices, we believe that cash flow reporting should classify cash flows during the reporting period as follows:

- operational activities;
- investing activities;
- financing activities.

In practice, companies often make mistakes when preparing their cash flow statements and do not pay enough attention to the report's indicators. One of the main reasons for this is the lack of a well-structured reporting format. There are also differences between the classification of cash flow reports used in developed countries and those in our republic. One such difference

is that taxation is classified as a separate section in the report used in our country, whereas in reports used in developed countries, taxation is included in the first section under operational activities. In our opinion, taxes paid should also be included in the operational activities section, as tax legislation requires it to be reflected there based on its economic substance.

The Law of the Republic of Uzbekistan "On Currency Regulation" emphasizes that "in the territory of the Republic of Uzbekistan, currency exchange operations are conducted on a contractual basis, depending on the demand for and supply of foreign currency" [6]. Furthermore, in Clause 6 of National Accounting Standard No. 22, titled "Accounting for Assets and Liabilities Expressed in Foreign Currency," approved by the Ministry of Finance of the Republic of Uzbekistan on March 23, 2004, foreign currency transactions are defined as follows: "Foreign currency transactions are transactions conducted in foreign currency when an economic entity: a) purchases or sells assets, goods, and services in foreign currency; b) obtains or provides loans in foreign currency or other foreign-currency-denominated liabilities; c) accepts obligations or settles liabilities in foreign currency" [7].

Different legal documents provide varying definitions of foreign currency transactions. Although these definitions are similar, they differ in certain aspects. Ensuring consistency between terms and concepts in laws and regulations governing currency operations is crucial, as these directly affect the indicators in the cash flow statement.

## **CONCLUSION**

Thus, it is essential to prepare the "Statement of Cash Flows" in compliance with international standards for companies operating in our country. Including data from both the previous and current reporting years in the cash flow statement will enhance its informational value and comparability. Moreover, discrepancies between regulatory documents governing this report should be addressed and resolved.

## **REFERENCES:**

1. Law of the Republic of Uzbekistan "On Accounting." No. O'RQ-404 dated April 13, 2016. <https://lex.uz/docs/-2931253>
2. National Accounting Standard No. 9 of the Republic of Uzbekistan "Statement of Cash Flows." Standard of the Ministry of Finance of the Republic of Uzbekistan, registered on November 4, 1998, Registration No. 519. <https://lex.uz/docs/-818994>
3. IAS 7 - Statement of Cash Flows. <https://www.iasplus.com/en/standards/ias/ias>



4. Order of the Ministry of Finance of the Republic of Uzbekistan No. 140 dated December 27, 2002, on the approval of "Forms of Financial Reporting and Rules for Completing Them." Registered on December 20, 2004, Registration No. 1209-2. <https://lex.uz/ru/docs/-837304>.
5. Jumayeva, G. A. Reasons for the Emergence and Composition of the Cash Flow Statement in International Practice / G. A. Jumayeva. - Text: Direct // Young Scientist. - 2022. - No. 20 (415). - P. 702-704. - URL: <https://moluch.ru/archive/415/91758/> (accessed: 04.10.2022).
6. Law of the Republic of Uzbekistan "On Currency Regulation." Law of the Republic of Uzbekistan, No. O'RQ-573 dated October 22, 2019. <https://lex.uz/docs/-4562834>
7. National Accounting Standard No. 22 of the Republic of Uzbekistan "Accounting for Assets and Liabilities Expressed in Foreign Currency." <https://lex.uz/acts/-842094>