

## OBSERVATIONS ON THE STATEMENT OF CASH FLOWS

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**Abstract:** Cash flow management requires clear information, which is compiled by organizations in accordance with international accounting standards. However, from the point of view of decision-making, the published cash flow reports are not always fully usable by the stakeholders. The article presents the possibilities of making decisions on cash flows and the ways of increasing companies financial stability based on it.

**Keywords:** cash, net profit, cash flow, direct method, indirect method, users, IAS 7

**JEL code:** M40, M41

**Research objectives:** present the possible ways of using cash flows when making decisions on the financial stability of organizations.

**Research novelty:** alternative ways of using the cash flow statement have been suggested, which contribute to making managerial decisions on the financial stability of organizations.

## Introduction

In the conditions of the development of market economic relations, the availability of funds and their effective use is an important prerequisite for the activity of organizations. The success of the financial and economic activities of entrepreneurial organizations depends on the ability to create, concentrate and effectively use funds (Soboleva, Y.P., Matveev, S.A. Ilminskaya, I.S. Efimenko, I.V., & Rezyakova, L.V. Mazur 2018). The movement of funds in operating organizations is continuous.

For organizations, generating cash is just as important as generating profits. And it is not at all necessary, that these two indicators go "hand in hand" in the life of the organization, because the principle of accrual works as a rule in RA. The profit shown in the Statement of Comprehensive Financial Results cannot be an indicator of the "real" cash available in the organization (Ahmed, A. S., Billings, B. K., Morton, R. M., & Stanford-Harris, M. 2002). And as accountants interpret, net profit for the reporting year is a number that results from multiple adjustments to profit. Because net profit is such an indicator that includes (reduction) such items as depreciation and amortization, exchange rate differences, which do not bring real cash to the organization. That is why cash flows can help to assess how much the organization actually "makes money" (Somnath Das 2019).

During the economic activity of organizations, their funds are constantly in motion, forming cash flows. They are the inflows and outflows of cash and their equivalents, the difference of which is called net cash flow. If the cash inflows of the organization exceed the outflow, then we have a positive balance and vice versa.

For the effective implementation of its economic activities, every organization must make great efforts to always provide cash resources that reach optimal levels, which is facilitated by the presentation of cash flows reports in a proper way.

### **Research results**

The concept of cash flow is a systemic concept that includes many types of these flows. One of the most important issues facing organizations is proper cash flow planning (Bukvich, Rajko 2023). The correct management of cash flows allows timely repayment of budget, supplier, salary, loan obligations and maximum profit, i.e. contributes to ensuring solvency, financial stability and business activity.

The users of financial reports need information on the cash flows of an economic entity in order to have the opportunity to evaluate the efficiency of its activity, as well as the demand of the given entity for cash. Summary information on cash flows of economic entities and their equivalents can be obtained from the Cash Flow Report. It is the most important component of the financial reporting package. This report is needed by the managers of the organization as well as external users of the report. Report, users can see the real situation of the organization, that is, the actual picture of the formation of incomes and the directions of the

execution of expenses, and based on them, form an opinion of business entities:

- ✓ about the volumes of received funds, sources and directions of their use;
- ✓ about the ability to fulfill the obligations due to the excess of cash inflows and outflows;
- ✓ about the organization's ability to meet its investment needs at the expense of its own cash receipts.

A statement of cash flows is a document that reflects cash inflows, outflows, and net changes during current operating activities, as well as investing and financing activities for a specific period of time (International Accounting Standard 7). These changes are reflected in such a way that they make it possible to identify the correlation between cash balances at the beginning and end of the reporting period. The cash flow report is a report on changes in the organization's financial condition, which is compiled based on the information on the cash flows of the business entity.

The main approaches to the preparation and presentation of the statement of cash flows are presented in the IAS 7 "Statement of cash flows" standard. The organization should present the information about cash flows arising from its financial and economic activities using:

- ✓ The direct method, which identifies the main classes of gross cash receipts and gross cash payments, or
- ✓ The indirect method, according to which the profit or loss is adjusted by considering items of a non-monetary nature.

That is, income and expenses, gains and losses, the results of deferral or accrual of cash receipts or payments from past or future operating activities, the effect of working capital is also adjusted on net flows from operating activities, as well as the results of income or expense items related to cash flows arising from investing or financing activities (Ahmed Mahdi Abdulkareem, Suresh Vasani 2021).

Entities are encouraged to present information on cash flows from financial and economic activities using the direct method. The direct method provides information that may be useful in estimating future cash flows that is not available under the indirect method.

On the basis of the above-mentioned principle, organizations classify their cash flows, based on the separation of types of activity. Both the indirect and direct cash flow statements consist of 3 parts that show the directions of activity:

- ✓ Cash flows from operating activities;
- ✓ Cash flows from investment activities;
- ✓ Cash flows from financial activities.

The direct and indirect methods of reporting on cash differ only in the segment of operational activity, the articles of the other two segments are absolutely identical. Entities present their cash flows from operating, investing and financing activities in a manner and form that is more characteristic of their activities. The classification of an organization's cash flows by activities provides users with information that enables them to assess the impact of these types of activities on the organization's financial position, the amount of its cash and cash equivalents.

Such information can also be used for the purpose of assessing the interrelationships of activity types. IAS 7 'Statement of Cash Flows' standard does not define an exemplary form of cash flow statement, but it requires to present the directions of cash flow classification as operating, investing and financing.

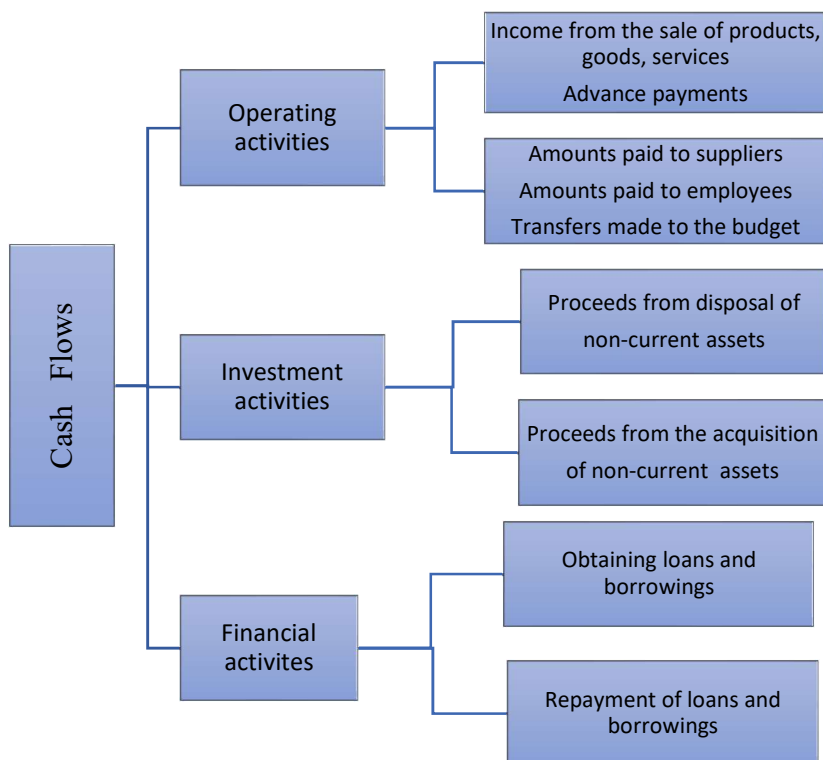
The first section, operating activities, is the entity's primary revenue-generating activities and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments that are not included in cash equivalents.

Financing activities are activities that lead to changes in the size and structure of the organization's invested equity capital and borrowed funds. For example, the principal amount of a long-term loan taken by the organization to purchase equipment will be considered as an inflow of financial activity, an outflow of investment activity, and the interest expenses on it, depending on the accounting policy, may be considered as operating action.

The reflection of the organization's cash flow articles by types of activity can be viewed using the following format (see Figure 1):

Information about the main classes of gross cash receipts and gross payments can be obtained from the organization's accounting records, as well as from other reports in the financial statement package.



***Figure 1. General classification of financial flows in the enterprise<sup>9</sup>***

## Conclusion

The statement of cash flows, along with other financial statements, provides information that enables users to assess changes in the entity's net assets, its financial structure (including liquidity and solvency), and its ability to influence the amount and

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<sup>9</sup> Composed by authors

timing of cash flows. in order to adapt to changing circumstances and opportunities.

Users of financial statements need information about the liquidity, viability and financial flexibility of organizations. With this information, users of financial statements will be able to estimate the future cash flows of organizations. Future cash flows in the practice of large companies and from the point of view of financial management theory are considered the main determinant of the value of organizations.

Based on the cash flow statement, it becomes possible to:

- ✓ Financial planning and budgeting of the organization's activities, considering the turnover of individual types of assets and liabilities of the organization.
- ✓ Evaluation of the effectiveness of the organization's investments.
- ✓ Assessment of activity and effectiveness of the organization's activities in terms of attracting additional financial resources.

The implementation of these measures will lead to more effective use of the organization's funds and ensure financial stability.

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## ԴՐԱՄԱԿԱՆ ՄԻՋՈՑՆԵՐԻ ՀՈՍՔԵՐԻ ՀԱՇՎԵՏՎՈՒԹՅԱՆ ՇՈՒՐԶ

### Գոհար Կոստանյան

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դասախոս

**Բանալի բառեր** - դրամական միջոցներ, զուտ շահույթ, դրամական հոսքեր, ուղղակի մեթոդ, անուղղակի մեթոդ, օգտագործողներ, ՀՀՄՍ 7

Կազմակերպությունների կարևոր նպատակներից է ոչ միայն շահույթի, այլև դրամական միջոցների ստեղծումը: Ժամանակաշրջանի ընթացքում դրամական միջոցների և

դրանց համարժեքների փոփոխությունների վերաբերյալ տեղեկատվությունը պետք է ներկայացնեն հաշվետվությունում՝ հոսքերի տեսքով: Վերջինս հնարավորություն է տալիս օգտագործողներին գնահատական տալ կազմակերպության դրամական միջոցներ և դրանց համարժեքներ ստեղծելու կարողության, ինչպես նաև դրանց կառավարման ու ապագա հոսքերի ծավալը մեծացնելու ունակության մասին:

Հիմնվելով դրամական միջոցների հոսքերի մասին հաշվետվության վրա՝ հնարավոր են դառնում.

- ✓ կազմակերպության գործունեության ֆինանսական պլանավորումն ու բյուջետավորումը՝ հաշվի առնելով ակտիվների և պարտավորությունների առանձին տեսակների շրջանառելիությունը,
- ✓ կազմակերպության ներդրումների արդյունավետության գնահատումը,
- ✓ լրացուցիչ ֆինանսական ռեսուրսներ ներգրավելու առումով կազմակերպության գործունեության ակտիվության և արդյունավետության գնահատումը:

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