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Importance of Cash Flow Statement in Transition to International Standards of Financial Reporting

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Abstract: this article discusses the importance and development of the cash flow statement in the context of the transition to international standards of financial reporting, as well as the improvement of the form of the current report in our republic. It is recognized that cash flows are one of the first indicators that allow identifying potential problems and economic risks of a company, and that the main source of this information is the cash flow statement.

Key words: cash flows, operating activities, investing activities, financial activities.

Introduction. Systematic transition to the market economy will depend on the rapid development of the economy of each sector, and the improvement of the efficiency of investment use. Adjustment of investments to the market economy requires a fundamental change of investment policy. At the same time, during the implementation of the investment policy [2], it is necessary to use levers suitable for market relations, i.e., [3] to determine the rights and obligations of the participants of the investment process [4], to ensure full competition for investors in the country, complete free movement in the management of material and intellectual assets, and equivalent measures requires implementation.

In the last decade, the statement of cash flows has become one of the main elements of the accounting financial statement in the world practice. It is one of the main forms of financial reporting, complements, and explains the changes in the organization's cash and cash equivalents through this report. Cash flow analysis allows to assess the company's ability to meet all settlement obligations, as it determines the need for payment implementations, external funds and additional real capital investments in long-term assets [5], determines the organization's ability to influence the amount and regularity of cash flows, and positive cash flow in the future analyzes the receipt of streams.

The importance of studying this topic is that now many companies and enterprises are trying to report in accordance with international financial reporting standards (IFRS). There is a tendency of convergence of IFRS and national accounting standards (NAS), however, differences between them remain [6].

The essence of the change process is to identify the existing inconsistencies in the accounts according to NAS and according to IFRS and to make necessary corrections to the reports prepared based on NAS.

Analysis of literature. The statement of cash flows reflects the change in the financial resources owned by the entity from the point of view of the movement of funds. With the help of this report, it is possible objectively compare the liquidity of the subject, taking into account the use of calculation methods when filling out other forms of financial reporting in the conditions of inflation.

The statement of cash flows is prepared based on NAS No. 9 "Statement of cash flows" [1]. Using cash flow information can help you determine:

- to determine the ability of the organization to find cash and their equivalents and the need of the organization to use such cash flows;
- changes in the entity's net assets, determining its financial structure (including its liquidity and solvency) and its ability to adjust cash and cash flows in a timely manner to adapt to changing circumstances and opportunities;
- comparison of the operational activities of different organizations, because this denies the use of different calculation methods for the same operational and economic activity events.

The statement of cash flows reflects the cash flows during the reporting period and they are classified according to the following types of activities:

- operational activity;
- investment activity;
- financial activity.

Operational activities. The volume of cash flows from operational activities is the main indicator of the organization's ability to collect sufficient funds to pay off loans, maintain production levels [7] [8], pay dividends and implement new capital investments without attracting external financing sources [9]. Cash flows in operational activities are primarily the result of obtaining income from the main activity [10] [11] [12].

Investment activity is the purchase and sale of long-term assets and other investments that are not included in cash equivalents [13], and the granting and receiving of repayable loans [14].

The following can be an example of the movements of funds that occur because of investment activities.

Financial activity - because of this activity, there are changes in the size and structure of the private capital and debts of the organization. The following are examples of cash flows from financing activities:

Non-cash transactions related to investment and financial activities. Non-monetary transactions of an investment and financial nature related only to fixed assets [15], long-term loans or equity capital include the purchase of fixed assets at the expense of long-term loans [16], payment of creditor debt to creditors by issuing and issuing additional shares, etc [17] [18].

Research methodology. Within this article, the importance of the statement of cash flows for the IFRS was analyzed through an expert assessment.

Analysis and results. In modern economic conditions, the activity of each economic entity is the focus of a wide range of market participants (organizations and individuals) who are interested in the results of its activity. Owners analyze financial statements in order to increase the profitability of the capital, to ensure the stability of the company's position. Lenders and investors analyze financial statements in order to reduce the risks of loans and deposits [19]. The quality of the decisions made mainly depends on the quality of their analytical justification.

Information about the cash flow of an enterprise is useful for users of accounting reports as a basis for assessing the ability of an economic entity to generate cash and cash equivalents, as well as the needs for using these cash flows. Economic decisions made by users require an assessment of the entity's ability to generate cash and cash equivalents, as well as the timing and accuracy of this.

Statement of cash flows The purpose of NAS 7 is to require an entity to present information on changes in cash and cash equivalents in the form of a statement of cash flows, which classifies cash flows for the period by operating, investing, and financing activities.

An enterprise must prepare a statement of cash flows in accordance with the requirements of this standard and present it as an integral part of the financial statements for each period for which the financial statements are presented.

Users of financial statements are interested in how a business generates and uses cash and cash equivalents. Such an interest exists regardless of the nature of the activity of the business entity, and regardless of whether the money is a product of the business entity's activity, for example, in the case of financial institutions. No matter how different the types of income-generating activities of the enterprise are, their needs for funds are mainly caused by the same reasons. They need cash to run their business, pay their obligations, and pay their investors their returns.

Therefore, this standard requires all business entities to present a statement of cash flows.

Benefits of cash flow information. A statement of cash flows, when used in conjunction with other financial statements, provides users with information to assess changes in an entity's net assets, its financial structure (liquidity and solvency), and its ability to influence the amount and timing of its cash flows in order to adapt to changing opportunities and conditions.

Information on cash flows is useful in assessing the ability of a business entity to generate cash and cash equivalents, and allows users to estimate and compare the presented (discounted) value of future cash flows of various business entities and develop comparison models [20]. It also improves the comparability of the performance reports of different business entities because it eliminates the effects of different accounting of the same operations and events [21].

Information about cash flows from previous periods is often used as an indicator of the amount, timing and accuracy of future cash flows. It is also useful in testing the accuracy of previous estimates of future cash flows, and in examining the relationship between profitability and net cash flows and the impact of variable pricing.

Conclusions and suggestions. In accordance with IFRS, it is treated as a basic financial statement and must be presented for each period in which the financial statements are presented. In addition to the statement of cash flows, a complete set of financial statements includes the balance sheet, income statement, statement of changes in equity, as well as accounting policies and explanatory notes to the financial statements. The components of the financial statement are interrelated and complementary, as they reflect different aspects of the same operations and serve a single purpose, which is to provide users with all the information they may need to make economic decisions.

Each financial report contains specific information about the financial and economic operations of the enterprise. A statement of cash flows contains information about cash flows during a period classified by operating, investing, and financing activities.

All businesses need cash, regardless of the nature of their primary income-generating activity. The statement of cash flows provides a basis for internal and external users (company managers, investors, creditors) to assess how the enterprise generates and uses cash, whether it can generate sufficient cash flows to meet short-term cash obligations. It also shows whether the company needs additional financing or a different dividend policy, what changes have occurred in investment and financial activities during the reporting period, and how the funds from the issuance of common shares, bonds or other debt funds have been used.

Using the statement of cash flows and analyzing its structure allows you to assess the real situation of the company, which, in turn, allows you to draw conclusions about the strengths and weaknesses of the organization.

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