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Adaptation of Financial Statements to the Requirements of International Standards and the Reflection of Information on Cash Flows in Business Entities

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Abstract:

The article examines the national and international financial standards related to the accounting of funds, the related and different aspects between them, and the prospects of their use in our Republic are revealed.

Keywords: cash, cash flow statement, operating activities, investment activities, financing activities.

As a result of the improvement of the investment environment in the Republic of Uzbekistan, the flow of direct investments to economic sectors and regions is increasing. Currently, in accordance with the Decree of the President of the Republic of Uzbekistan dated February 24, 2020 No. PQ-4611 "On additional measures for the transition to international standards of financial reporting", the accounting and reporting system of large joint-stock companies, joint ventures and foreign companies need to adapt to the requirements of international accounting standards for their economic operations.

Currently, the government has developed laws and regulations on attracting foreign direct investment to the economy of the Republic of Uzbekistan. As a result, about 700 investment contracts were signed in cooperation with foreign countries and international financial institutions, and it is planned to build large infrastructure projects and modern high-tech productions. This requires adjusting the accounting system to international financial reporting standards (IFRS). The purpose of IFRS is to ensure economic reliability, transparency, accountability, efficiency and long-term financial stability in global financial markets. IFRS standards allow investors and other owners to make sound economic decisions by ensuring transparency through international comparability and increasing the quality of financial information.

The reform of accounting in our country is focused on ensuring its compliance with the requirements of international standards in the context of the digitalization of the economy. International Financial Reporting Standards are generally accepted rules that establish requirements for the recognition, measurement and disclosure of financial and business transactions for the preparation and understanding of financial statements of companies around the world. In recent decades, financial reporting standards have ensured the comparability of accounting documents of companies on a global scale, and are also a condition for the availability of reporting information for external users. Bearing a recommendatory character, they are designed, first of all, to ensure the transparency of financial reporting. Transparency of reporting means the creation of conditions under which information about the real financial situation of individual enterprises and their consolidated groups about the management decisions and actions taken is available and understandable for all interested participants in market relations. Transparency is necessary, first of all, so that all market participants justify their actions and policies, as well as bear responsibility for their decisions and the results of their implementation. World practice shows that transparency of reporting provides conditions for the implementation of the concept of responsibility of three main groups of market participants: issuers and investors; borrowers and lenders; government bodies and international financial institutions.

This is of particular importance for socially significant holding entities, whose activities affect the interests of all these groups of market participants. The problem of ensuring transparency for such a very important, but relatively new for domestic enterprises, reporting form as a cash flow statement is extremely urgent. Such a report provides information that is useful to both internal and external users of the reporting, who with its help can assess how the company creates and uses funds, whether it is able to produce them in sufficient quantity for its normal functioning and the settlement of current payment obligations.

In international practice, the statement of cash flows is widely used. In accordance with International Financial Reporting Standards (IFRS No. 7), it is recognized as the main financial statement, which, along with the balance sheet, income statement, statement of changes in equity, information on accounting policies and notes to financial reporting must be submitted for each reporting period. All of the above reports are interrelated and complement each other, describing various aspects of the financial and economic activities of the enterprise with the common goal of giving users of the reports the most complete information for making economic decisions. However, the International Standards on Consolidated Reporting of Holding Structures does not provide specific recommendations on the principles for the formation of consolidated statements of cash flows. In the domestic practice of economic work, the importance of even individual reporting on cash flows is clearly underestimated. The submission of such a report is optional in the quarterly financial statements and it appears only as an appendix to the annual report. Thus, the aforementioned International Standard states that information on changes in cash and cash equivalents for the period is presented in the statement of cash flows with the separation of cash flows from operating, investment and financial activities. At the same time, operating activity is understood as the main activity that generates income, and other activities other than investment and financial. Investment activity is defined as an acquisition and sale of long-term assets and other investments not related to cash equivalents. Financing activities are classified as activities that lead to changes in the size and composition of capital and borrowed funds of the company. At the same time, according to the rules contained in Russian regulations, the cash flow statement reflects information about cash flows, grouped by current, investment and financial activities. The definitions of these activities are essential differ from those adopted in IFRS. Here, the current activity is considered to be the activity of an organization that pursues the extraction of profit as the main goal or that does not have the extraction of profit as such a goal in accordance with the subject and objectives of the activity. However, it should be noted that making a profit is the goal of both investment and financial activities, and the fact that the last two types of activities themselves can be the subject of the organization's activities. The Russian definition of investment activity includes activities related to the issuance of bonds and other securities of a long-term nature. But such transactions lead to changes in the size and structure of the capital and borrowed funds of the organization, which, in accordance with International Standards, is a sign of financial activity. It should also be noted that the domestic definition of financial activity includes transactions for the purchase and sale of short-term financial investments that are not related to cash equivalents, and such transactions in IFRS refer to investment activities.

IFRS No. 7 provides for the preparation of a statement of cash flows funds by two alternative methods: direct and indirect. For each from these methods the corresponding report form is provided. Direct method is based on a comparison of revenue and other receipts ("inflows") cash taking into account the dynamics of accounts receivable and balance balances of other assets with different amounts of expenses ("outflow") of cash, taking into account changes in debt to creditors. Such the approach allows you to trace the movement of funds in an extremely detailed way on the accounts of the enterprise, to assess the increase or decrease in the degree of its liquidity. The use of this method is recommended for industrial enterprises. The indirect method of drawing up a report, recommended mainly for financial and credit institutions, allows you to clearly trace the relationship between changes in the amount of funds of an organization and the financial results of its activities. Using the indirect method, the actual net profit is taken as the initial basis for drawing up the report, and then it is adjusted taking into account changes in various items of assets and liabilities of the balance sheet. The profit is adjusted for that part of it that is not related to the real movement of money due to the application of the accrual method in accounting. So, reflecting in the accounting revenue from sales on the accrual basis ("by shipment"), we also generate profit from sales, but without receiving real money, we show an increase in accounts receivable. Accordingly, to recalculate profit into cash, the increase in accounts receivable should be deducted from the financial result, and the decrease in receivables associated with the receipt of money must be added to profit. Likewise, the increase in other assets, which means spending money, should be deducted from the profit, and their decrease should be added to the profit. At the same time, an increase in the company's own payment obligations of the enterprise does not mean a real outflow of money and it must be added to the net profit, and their decrease associated with the payment of debts should be attributed to a decrease in net profit. The net profit must also be adjusted for the amount of expenses recorded in the accounting that do not require real cash payments (depreciation of fixed assets, depreciation of intangible assets). The amount of such costs should be added to the net profit for the same period, reflecting the cash flow of the enterprise.

These shortcomings could currently be overcome through extensive disclosure of financial statements of cash flows. IFRS 7 prescribes the disclosure of not only additional information that may be important for understanding the financial position of the enterprise, but also requires that all relevant information on investment and financial transactions be included in the statements, even if they do not have a direct impact on current cash flows. However, Russian rules do not require such disclosure of information, obliging enterprises to reflect in their statements information that is not very useful for assessing the financial condition of an enterprise and its investment individuals, on the use of cash registers, on the movement of funds between the company's current account in the bank and cash account.

It should be especially emphasized the purpose of the statement of cash flows for the purposes of managing the organization.

The cash flow statement summarizes the cash flows for the reporting period in order to obtain additional information about the results of production and economic activities of the organization, its investment and financial activities. The report should make a clear distinction between funds generated as a result of normal production and economic activity and received from external sources.

The report should provide information on whether the achievement of profitability was ensured by a sufficient inflow of funds, contributing to the expansion of ongoing operations or, at least, allowing them to continue at the same level, whether the inflow of funds satisfies the required level of liquidity of the organization. The report is intended to reflect investments in subsidiaries and other business companies, capital investments in fixed assets, to increase working capital, contain data on the withdrawal of funds from the investment sector. Finally, the report should provide an idea of the organization's activities in attracting financial resources to finance its development and other needs.

The object of generalization in the cash flow statement should be not only the company's cash in bank accounts and in cash, but also business processes that are not directly reflected in cash accounts (offset of mutual claims, exchange transactions, etc.).

In this case, net cash is understood as the net result of cash flow under the influence of business transactions. Net result - a net increase or decrease in cash for the reporting period.

In the structure of the cash flow statement, cash flows from operating activities are decisive. If the very bottom line of this section represents a cash outflow, this can usually serve as an indicator that the company is not able to effectively carry out its activities.

As noted earlier, information on the cash flows of operating activities can be represented by two methods:

- direct, assuming direct disclosure of cash flows on all bases groups of receipts and payments: receipts of receipts, payments to employees, purchase of raw materials and components, etc .;
- As well as indirect, based on the adjustment of the amount of net profit for the reporting period by exclusion of the influence of non-monetary transactions and income (expenses) from investment and financial activities on it.

When using the indirect method, net profit is reduced, first of all, to an intermediate indicator of operating income before taking into account the effect of changes in working capital. This is achieved using the following most common amendments:

- the amount of depreciation deductions, interest to payment, loss from the sale of fixed assets and other long-term assets, which initially reduced the amount of profit;

- income from investments and financial transactions, as well as the sum

we reduce the estimated reserves, which were originally attributed to credit to the profit and loss account.

If an entity uses the indirect method to present cash flows from operating activities, it becomes necessary to separate the exchange differences relating to fixed assets. Since exchange rate differences are included in the income statement, a reversal entry must also be made for the amount of exchange rate differences attributable to fixed assets accounts.

The interim indicator of operating income obtained in the current reporting does not take into account changes in the total mass of working capital that occurred during the reporting period. Therefore, the indicator under consideration should be adjusted for the change in the amounts of accounts receivable for main activities, advances and other debtors, inventories and accounts payable. The indicator of operating income to bring it to the net cash received from operating activities is reduced by the increase in current assets and increased by the increase in short-term liabilities.

The report includes the amount of cash receipts received as a result of calculations from the balance sheet, profit and loss statement. Only some cash flows are shown by actual volume: depreciation charges; proceeds from the sale of own shares, bonds; receipt and payment of dividends; receipt and repayment of credits and loans; capital investments in fixed assets; intangible assets; financial investments; increase in working capital; sale of fixed assets, intangible assets, securities.

The report, compiled according to the indirect method, concentrates information about the financial resources of the organization, reflects the indicators contained in the estimate of income and expenses and coming at its disposal after paying for the resources necessary for production in order to complete a new reproduction cycle. In our opinion, the information contained in such a report has an independent analytical value. Such a report provides data that is not in the form compiled by the direct method, but which are necessary to understand the sources of funding and other aspects of the organization's activities.

Prepared in accordance with the requirements of IFRS, individual, separate reporting on the cash flows of enterprises - members of the holding structure can serve as a fairly reliable basis for the formation of consolidated statements of cash flows of a particular holding company. However, the very procedure for compiling such reports has not yet been developed and tested. Obviously, the need to develop procedures and a holistic methodology for the preparation of such a technique is ripe, and the next section of this study will be devoted to solving this problem.

In the presence of proven methods, the interest of domestic holding companies in the formation of consolidated statements of cash flows may also increase due to the fact that in accordance with IAS 27 "Consolidated and Individual Financial Statements" only consolidated statements should be published without publishing individual statements of consolidated subsidiaries.

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