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Cash flow statement and increasing its informational content

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C O N T E N T

INTRODUCTION

The actuality of the subject. In modern conditions, where the economic relationships between enterprises are identified, the lack of trust between partners in many cases dramatically increases the demand for reliable information. Such information is of great interest to all participants of the economic cycle without exception regardless of ownership.

Moreover, as a result of the regulation of market relations, giant companies and holdings are formed, their sphere of business is expanding, and the globalization of business as a whole creates conditions for strengthening these processes. Heads of ompanies, banks and other businesses should prepare financial reports on their business activities on a regular basis when performing their duties. The validity of these reports is checked by specialist analysts, independent auditors, or representatives of audit firms.

Always increasing demand for analysts and auditors can be explained by the expansion of potential range of financing sources. Decision-making about the purchase or sale of securities, issuance of loans, extension of commercial loan, concluding agreements on loans and, i.a. first of all is based on the validity of financial information. Moreover, the operations of enterprises are so numerous and complicated that it is impossible to independently obtain the necessary information for those who use them.The effects of decisions made by those who use this information at that time are sometimes so important that the information should be as accurate and complete as possible. But validity of the information could be confirmed by independent auditor.

In the market economy, the move towards the market, first and foremost, is the way to economic freedom. At present, only the “Law” rises above the entrepreneurs’ heads. Directive plans, orders, compulsory allocation of resources, and the closure of production to consumers are now disappearing. Many of the state-defined prices have already become market prices. Restrictions on entrepreneurial activity, a part of the forms and types of ownership are very insignificant. The tax system and state orders will be based on pure economic basis over time and the rest will be solved on the basis of manufacturers, consumers and, in general, on their will.

At the same time, economic freedom may hinder the activity of others while taking into account one's interests. Of course, entering into economic and financial relations with any subject is accompanied by the creation of very serious settlement and credit forms. Moreover, as the market relations develop, competition will also strengthen. To work under such circumstances, there is need to lean on investments. This, in turn, is due to very serious settlements and commitments, in particular with the certain risk. When industrial-economic issues are solved in the entrepreneurial condition, it is important to be based on the business mechanism to improve financial results.

Market relations that are formed in our Republic in most cases are based on business financial results, self - financing of enterprises and firms. Motivational importance of self-financing is confirmed by very large external experience. For this purpose, blocks such as business activity, pure profit, rentability, liquidity elements, anti-crisis activity and etc. must be strong enough. İt is necessary to be taken seriously to the blocks and elements we mentioned above, issues related to cash flows and settlements and credit operations in the process of capital investments financing.

Purpose and tasks of the work. At present, related to accounting, audit and economic analysis that has formed in the Republic certain works have been carried out in the normative documents related to accounting of settlements and credit transactions.Particularly, the accounts sufficiently taking into the consideration the peculiarities of settlements and credit transactions in the existing account plans were intended. New property and types of operations are emerging in accounting and reporting practices related to economic development. It can be noted various types of securities, investments of other companies to charter capital, operations of promissory notes, non - material assets among them. Attracting new capital is accompanied by a great risk for creditors. Thus, all new creditors are exposed to greater risk compared to previous ones.

Numerous theoretical and practical problems studied in the graduation work have not been thoroughly reviewed in the published economic literature and scientific researches in the Republic. In particular, the ways of improving the accounting of cash flows settlement and credit operations, and their adoptation ability to international standards is waiting for its solution as a theoretical-methodological and practical problem.

The scientific novelty of the work. The using of accounting practices in force in the Republic and adaptation ability of existing accounting principles to international standarts of financial reporting and revealing the existing differences between the two systems is the main purpose of the graduation work. In the graduation work that based on these purposes, the following issues have been studied in a complex way and ways of their solution have been shown:

- Disclosure of general methodological principles of accounting of various types of cash flows and settlement;
- Definition of the essence of those operations on the basis of cash flows and settlements on the basis of summarizing country and foreign experience;
- İnterpretation of the most important types of cash flows and settlements and substantiation of the necessity of using them in the accounting practice of the Republic;
- Improvement of the accounting of cash flows and settlements transactions based on International and National finance standards and preparation of relevant recommendations;

Subject and object of the work.The features of accounting for cash flows and settlement operations, their theoretical, methodological and conceptual basis, improvement of accounting, etc. informations of different enterprises and conventional figures were used in the research work.

Theoretical and methodological basis of the work. Theoretical and methodological basis of the work is consists of the substantive researches of the republican and foreign scientists on accounting of cash flows and settlement operations, and normativ – legal documents on accounting, audit, economic analysis and tax.

The information base of the work is consists of the decisions of the Cabinet of Ministers of the Republic,orders and instructions of the Ministry of Finance of the Republic of Azerbaijan, the Central Bank of the Republic of Azerbaijan, the State Statistical Committee, the Ministry of Taxes, the Customs Committee. At the same time, standarts, directives widely used in world practice, materials of conferences and symposiums on accounting were used in the implementation of the work.

Volume and structure of the work. Graduation work is consists of 50 pages, including introduction, 2 chapters, conclusion and a list of literature.

CHAPTER I

THEORITICAL FRAMEWORK for FOR THE FORMULATION OF THE STATEMENT OF CASH FLOWS

1.1. The nature of the cash flow statement, its status and purpose.

Cash flows is money held on bank accounts and cash flows given by on requirements. The cash flows statement reflects the cash flows of the entity during the period and the amount of cash flows to the end of the reporting period. However, the concept of "cash flows" is a very limited concept, especially in the modern economy and there are also some other types of investments that are relevant to this consept. Without considering such investments, only when cash flows is paid attention in cash flow statements, this statement will be very limited and will be less useful in practice. Therefore, the Cash Flow Statement should reflect both cash flows and other types of investments. (cash flows equivalents). There are two methods of preparation of the Statement of Cash Flows (PSCF):

1. Direct method;
2. Indirect method.

The difference in the application of these methods is related to operational activity. Thus, for the operations of investment and financial activities only direct method is used. But, in the operating activity both direct and indirect methods may be used. The direct method is a method of describing information about the main types of pure cash inflows and pure cash outflows. Preparation of the Statement of Cash Flows by this method can be realized by the way of deduction the total outflows from total inflows, if needed by making certain adjustments to this calculation.

Indirect method is the method of the results of non-monetary transactions, any deferred and accrued past and future cash flows from operating activities, including the revenue related to cash flows from investing activities and financing activities and taking into account the expense items, is a method that reflects adjustments to pure profits or losses.

In the "Cash Flows equivalents" account with number of 105, highly liquidity investments that intended for fulfilling short - term liabilities more than investment and other purposes, with a short payment period, which can be easily converted to the previously known amount of cash and exposed to minor risk as the change of value are recorded. The following sub-accounts can be opened to this account:

"Letters of Credit" with number of 105 - 1;

"Limitated Checkbooks" with number 105 - 2; "Money documents" with number of 105 - 3;

"Financial investments" with number of 105 – 4 and others.

In the sub account of "Letters of Credit" with number of 105 – required letters of credit amounts are registered according to the contracts concluded between customers and sellers of good (contractors) based on prices of sold material, work done and services provided. Letters of credit may also be required at the expense of funds received from stock exchange and non- stock exchange activities. Formalization order of letters of credit and term of their activity are determined by the Central Bank of the Republic of Azerbaijan. The required amount of letters of credit is reflected in the debit of sub-account of 105-1 and in the respective cash flows account. To the letters of credit used are given credit of sub-account with number of 105-1 and accounting writing according to the debit of relevant accounts. Unused letters of credit amounts are returned to their accounts at expense of respective cash flows accounts.

In the sub – account of "Limitated Checkbooks" with number 105-2, the deposited amounts are registered for settlements on the limitated checkbooks for goods received, work done and the services provided. The organization must submit an application to credit organizations about payment order and purchase of limitated checkbooks to obtain limitated checkbooks. Checks of limited booklet must be signed by the head of the organization or the chief accountant. When purchasing material goods on the spot, to authorized person whom was given a power of attorney for the purchase of goods is allowed to sign the chek.

The right of the authorized person to sign the check and the amount required for the purchase of goods is indicated on the power of attorney. When signing the check by an authorized person of the organization on the basis of power of attorney, before the signing there must be recorded “on the basis of Power of attorney” on the check. Check from limitated checkbooks are given to the goods seller simultaneously with the release of goods or providing services. Which organization, which account or the amounts transferred under the substitute document, according to the check must be indicated on the check.

Deposited amounts of limitated checkbooks are reflected in the debit of sub-account of 105-2, in the credit of respective sub-account of 103. The amounts paid on checks for the purchased material valuables are reflected in the credit of sub-account of 105-2 and in the debit of 309 and other relevant sub-accounts. At the end of the month, total is calculated and free limit resudie is deducted by end of the month. This residue must comply with the limit of residue on the checkbooks.

In the sub – account of “Money documents” with number of 105 - 3; different money documents is registered: coupons payed for petrol, lubricanting oli, food products and etc., notifications paid to rest houses, sanatorium, tourist bases, postage stamps, notifications for receiving to mail transfers, postmarks and state duty marks, bond sheets and so on.When different money documents are obtained, accounting writing is given under the debit of the sub – account of 105 – 3 and the credit of accounts of 301 and 309. When different money documents are deleted, it is reflected in the debit of account with number 703, 733, 743 and the credit of account with number 105-3.

In the sub – account of “Financial investments” with number of 105 – 4, movement of cash flow investments,securities,interest bearing bonds in bank deposite carried out at the expense of funds received from the stock exchange activity of the organizations is registered. Received bank deposits, interest-bearing shares and securities are reflected in the debit of sub-account of 105-4, and amounts on sale of other securities are reflected in the credit of sub – account of 105-4.

During the payment of the value of the purchased securities, if there is a difference between their purchase value and their nominal value, stockholders deduct from account or additionally calculate difference between the amount of purchase value and the nominal value. Where the amount of purchase value exceeds the nominal value,the difference is reflected in the credit of the sub – account of 105 – 4, where the amount of nominal value exceeds the purchase value, the difference is reflected in the debit of the sub – account of 105 – 4 and in the credit of the sub – account of 633 – 3.

At the same time, the following accounting writings are given on these differences:

- Where the amount of the purchase value exceeds the nominal value, on the debit of sub – account of 801 and the credit of to the sub – account of 633-3;

- Where the amount of the nominal value exceeds the purchase value, on the debit of the account of 633-3 and the credit of sub-account of 801;

Settlements between enterprises and institutions are carried out in two forms: in cash and non – cash order.

A settlement account and other accounts are opened in the bank at the location of each entity to maintain cash flows and carry out cashless settlements between enterprises.

Operations carried out by the bank is considered the most important form in the system of settlements between the enterprises. Settlements of purchase and sale operations on the basis of the agreements signed between the enterprises, and settlements related to all economic operations is carried out by this form of settlement.

According to the existing rules in the Republic of Azerbaijan, regardless of ownership, the state, cooperative, stockholder, collective, joint, public, privately –

owned and other enterprises, organizations and institutions must kept their cash flows in bank offices.

Enterprises bring the cash flows on hand to the cash register to make current settlements and pay wages to their staff. The enterprises can keep the cash flows on hand at the approved limit degree.

Useful and reasonable arrangement of settlement operations in enterprises is essentially dependent on the level of cash flow operations, settlement and credit operations. The main objectives of the accounting of cash flows, settlements and credit operations are following:

- documentation of non-cash and cash settlements in time and carrying out correctly;
- complete and operational reflections of cash flows on hand and settlements in accounting writings;
- to ensure use of cash flows on defined limits, estimate and funds in accordance with current legality;
- to inventory of cash flows and settlements conditions in defined time,and to prevent the emergence of overdue debitor's debts and creditor's debts;
- to ensure control over the residue and its keeping in the cash register of enterprises, bank settlement accounts and other accounts;
- to control to maintenance of settlement-payment discipline and payment of cash flows in time on purchased material valuables and services.

1.2. Requirements to the quality of cash flow statement

The concepts used in the budget organizations have the following meanings:

- **authorized representatives of budget organizations**: a responsible person (advocate) who has been authorized to sign all receipts and expenditure documents compiled on cash operations on the basis of relevant order of the head of the budget organization.

cash operations: a set of operations on the receipt, transfer, keeping and protection of cash and other valuables in budget organizations.

cashier: a person with financial responsibility who carries out cash operations in budget organizations according to these rules.

cash desk document is the primary accounting document used for carrying out cash operations in budget organizations.

operation day - the period of customer service during the working day defined by the internal rules of the budget organization.

encashment - transportation of cash and other valuables in budget organizations to destination from where it is.

Other concepts used in these rules express the existing legislative acts of the Republic of Azerbaijan and defined meanings.

Cash flows receipt, cash flows payment and compilation of cash desk documents.

In all income and expenditure document on cash operations are signed by the head of the budget organization, or the head of the structural department, the chief accountant or their authorized representatives, cashier, as well as persons giving and receiving cash.

The cash flows to the cash register are transferred by cash receipts order having a serious reporting bank affirmed with stamp and signed by the head of the budget organization or its relevant structural department, chief accountant or its authorized representative, as well as by the cashier and the invoice of cash receipts order affirmed by stamp by cashier is given to the person who give money to cash.

Documents that are the basis for compilation are attached to cash receipts order. Cash from cash register is given on the basis on cash expenditure order signed by the head of the budget organization or its structural department, chief accountant or its authorized representative,as well as a person who receive the money and on the basis of the attached payment documents to it.

Payment documents attached to the cash expenditure order are signed by the head of the budget organizations or its relevant structural department, the chief accountant or their authorized representatives, as well as the person who receive the money.

When making cash payments based on payment documents, a cash expenditure order can be complied to the amount on total outcome of several identical payment documents to the person who receive money.

When cash flows are given to individuals individually, the name of the identity document, serial number, place of issue, date of issue and other relevant indicators of money receiver are written to “additional documents” requisites of cash expenditure order.

The cashier may only give cash to the persons indicated in the cash expenditure order and in the power of attorney attached to it.

If the cash shall be given with cash expenditure order on the basis of a documented power of attorney, in accordance with the established procedure,then in the text of the order is written the name surname father’s name of the money receiver and then the name surname and father’s name of the person who was trusted to receive money.If cash is given onthe basis of payment lists with a power of attorney, the cashier must write “with a power of attorney” before signing for receiving the money. The power of attorney remains in the cashier and is attached to the cash expenditure order.

One-time payments to individual persons are provided through the cash expenditure order. When the funds received from the bank for the various purposes are expired, the following actions are carried out by the cashier:

• in the payment schedule the word “Deposited” are written in front of the person’s name who does not receive the money;

• a registry is compiled for the deposited amount;

• At the end of the payment schedule, the amounts actually paid and unpaid deposited amounts should be recorded, these amounts should be confused with the total amount of the payment schedule and the records should be confront with the cashier's signature.

Amounts on cash income order and cash expenditure order must be recorded in the cash - book during the day.

The records made by the cashier on the payment schedules, the amounts paid and deposited should be reasonably checked in accounting.

A total cash expenditure order is complied for amounts deposited and transferred to the bank.

Cash income order and their receipts, as well as the cash expenditure order and the payment documents attached to it (cash documents) must be filled in with ink or ball-point pen with an truly and clearly.

The cash income order can also be filled in typewriter, computers or other modern computing techniques. Any corrections to these documents are not allowed. It is not permitted to tear blanks, to make violations, to spot them, as well as to make adjustments on cash income order and cash expenditure order (instead of spoiled forms, others are filled). Spoiled cash icome order is canceled from the blank in the order established for serious reporting forms. After writing and signing cash expenditure orders by the head and the chief accountant, in a specially crafted book is registered by the chief accountant or the accountant entrusted with the fulfilment of these works and is given to the cashier for implementation.

During the day, a registry on the cash income and expenditure orders used (formalized) in appropriate rule is compiled and the final amounts of these registries are processed into the cash book. In the registers, the numbers, dates and amounts of cash income and o cash expenditure orders are written and the final amounts on income and expenditure operations are indicated during the day.

When receiving cash income and expenditure orders and the documents attached to them, the cashier should control the followings:

• the availability of the signature of the head, chief accountant or their authorized representatives in the payment documents and their compliance with the example of the signature in himself;

• Correct preparation of payment documents and accuracy of the final amounts;

• availability of attachments listed in the documents.

If any of these requirements have not been met, the cashier returns them to accountining department without fulfilling these documents.

After receiving or giving the money with the order of income and expenditure orders or documents attached to them,these documents are signed by the cashier immediately showing the date (day, month, year), payment documents attached to them are stamped, showing the date (day, month, year) "Paid" is recorded.

When accepting bank - notes and coins as a payment, the cashiers of the enterprises take "Rules for the analysis and conduct of money expertise in the banking system" of the National Bank of the Republic of Azerbaijan as a basis.

Compilation of the cash and keeping cash flows

Private cash book should be opened in the established form for cash operations on all types of cash flows (currencies) in budget organizations.

The cash book (except for the automated cash book) is tied together, and as its sheet consists of two parts (the second part is the cashier's report), both parts are numbered with the same number, the number of pages is signed by the head of the budget organization or its structural department, chief accountant or their authorized representatives and after stamping is given to the cashier for using.

The sheets of the cash book are filled with an ink pen or a ball – point pen, the second part of the sheet is cut off and delivered to the chief accountant together with all the confirming documents and cash book itself (the first part of the sheet) is stored in the cash register.

An unconditional correction is not permitted in the cash register. Mentioned amendments shall be confirmed in apropriate rule by signatures of cashier, chief accountant and those who substitute him.

During the day, the cashier registers the amounts on the cash income and expenditure orders in the cash book, summarizes the operations conducted, removes the residue of the money remaining in the cash to the beginning of the next and delivers the report to the chief accountant of the budget organization for each day. The cash account submitted to the chief accountant is accepted by him with checking , and to the end of the day when money residue in the cash exceed the established limit, the reasons for it are sought and, if it is deemed necessary, the availability of cash balances is checked and appropriate measures are taken. Accounting of cash operations and compilation of cash book based on cash income order and cash expenditure order can be done by computers or by modern computing techniques.

The chief accountant must control to compilation of cash book and conducting cash operations.

It is forbidden to import money without cash income order and to export money from cash without cash expenditure order.

Heads of budget organizations or structural departments of this sector should ensure the protection of money bringing from banks, delivery of money and keeping money in cash. If the necessary conditions have not been created to ensure cash flows due to their fault, they are responsible in a defined rule. For the safe transportation of money by concluding relevant contracts it is possible to use encashment banking services.

The cash room must meet the following requirements, isolated from other rooms:

- meet fire and safety requirements;
- must have an iron gate with protected door;
- the room must be equipped with a fire resistant iron safe;
- the bottom part of the cash room should not be a space or basement.

At the same time, the room should be closed from inside when doing cash operations.

All cash and securities in budget organizations are usually kept in non-combustible safes (iron cabinets). At the end of the working day, the cash register are closed by keys and the cash register is sealed by the cashier.

The cashier must be provided with signature samples of the authorized persons who has the authority to sign in cash (money) documents and their authorized representatives, with the seal (stamp) intended for use in the formalization of cash (money) documents by the head of the budget organization or the structural department of it leading this area.

The key of the safe (cabinets) and seal (stamp) is kept in cashier but copy of keys are kept in the head of budget organization and its relevant structural department (in packages sealed by the cashier in small chests).

It is not allowed to keep money on hand and other valuables not related to the relevant budget organization in its cash register.

The cashier should check the integrity of the lock, the door, the window, and the seal before opening the cash and the safe (cabinets).

In case of removal or damage of a seal, breaking locks, doors or windows, loss of cash register keys, the cashier shall immediately inform the head of the budget organization or its relevant structural department, and the head, in turn, must inform the law enforcement agencies. In this case, cash flows and other valuables kept in the cash register on the basis of the relevant order are checked by the participation of the head, the chief accountant, the person replacing him as well the cashier (after receiving the consent of law enforcement agencies). No cash operations are carried out until the end of this vertification. An act consisting of three copies is complied,which signed by all persons participated in the vertification about the result of the vertification. One copy of the act is given to the law enforcement agencies, the other to the higher organizations, and the third copy remains at the relevant budget organizations.

If any copies of the cash register keys are lost, immediately it must be reported to the head of the budget organization, locks replacing with new ones must be implemented.

After the cashier is employed, the head of the budget organization or the relevant structural department should officially get acquainted him with the rules of cash operations and must conclude an individual contract with him on full financial responsibility in an established order.

The cashier does not allowed to rely on other persons the works entrusted him.

If there is a necessity to replace a cashier in budget organizations, carrying out his duty shall be entrusted to another employee by the order of the head of the budget organization. An individual contract about full financial responsibility is concluded with the employee which entrusted the cashier's duty.

Accountants who have the right to sign cashier documents can not perform cashier's duties.

When a cashier lefts work, goes for a holiday, in the cases related to illness and other reasons, a special commission is formed by the order of the head of the budget organization. The commission, which includes the person who is responsible to perform cashier's duty opens the door of the cash register with keys kept in in a special package in the safe of the head of budget organization or its structural department, counts the cash flows and other valuables which in the cashier's responsibility, determines the balance of the cash register and compiles the receiving-transfer act consisting of three copies. After the act has signed and approved, the cash register with all the documents is given to the person, who will carry out the cashier's duties. The first copy of the receiving – transfer act is kept in the accounting. The cashier's duties are explained to the person who is in charge of the cashier and concludes a separate contract of full liability.

In non-cashier budget organization performing cash operations is entrusted to another employee by the order of the head of the budget organization and concludes with him an individual contract about full financial responsibility.

Control over compliance with cash discipline

No less than once a quarter, all the money and other valuables in the safe of the budget organizations are suddenly checked. Check-out of the cash register is carried out by the commission established by the heads of budget organizations or by the heads of accounting services.

If there are several cash registers in the organization, they should be checked simultaneously.

The comission carrying out the cash checking must obtain a final cash report (including income and expenditure documents) and written request from the cashier (from the person replacing him) before checking the cash register.

The actual cash balance of the cash register is confronted with cashier's book residue (cash report) and cash report of accounting.

In the act it is recorded that all resposibility about the actual balance of money left in the cash register remains on the cashier at the end of the control.

1.3 Logical sequence of reporting cash flow statement

One of the leading, private, non-profit and strong financial organization of the world (and especially, in the United States), Financial Accounting Standards Board’s Accounting Standards Upgrade 2017-14, “Presentation of Financial Statements of Not-for-Profit Goods” extracts the demand that not-for-profit assets that trace to prepare the statement of cash flows via the direct method should also submit a conciliation (with the indirect method). That is one of the two obstacles to the take advantage of the direct method solely. And the second one is the informational demands; so that the indirect method is totally easy to prepare via using a spreadsheet, but in the other hand, the direct method lacks of it.

Financial Accounting Standards Board (hereafter will be mentioned as FASB) has always thought the direct method of reporting cash flows better to the indirect method; so that in FASB’s approach, the direct method the way better achieves the cash flow statement's basic objective (to ensure appropriate information about the reporting asset's cash receipts and cash payments) and the whole purpose of financial reporting (to give information that is beneficial to users in making investment and loan considerations). Accounting Board also advances that a direct method statement is more beneficial to an extensive range of users and increases their ability to forecast cash flows, and to define the relationship between amounts reported on the revenue statement and cash flow statements.

From around the globe there are so many financial paper users which share Board's righteous preference for the direct method. For instance, a majority of financial researchers which questionaired by the Chartered Financial Analyst Institute agreed that offering operating cash flows using the direct method better facilitate them to predict future cash flows of an asset than the indirect method (CFA Institute Annual Poll: Cash Flow Survey, July 2010). Accounting Board had contemplated requiring the direct method, but in the end, detected neither to require it for assets nor to require the submitting of both while the direct method is preferred.

In general, the direct method technique details where exactly the total amount of cash comes from and where it is going to proceed. In contrary to that, the indirect method begins with net revenue (for-profit assets) or the modification in net entities, attaches back non-cash expenditures, extracts the overall gains and losses, and regulates for the modifications in current entities and current obligation accounts. Whilst the net cash submitted or preferred by operating activities is the same with both techniques, the direct method straightly ensures the information users prospect to sense from the statement. Besides, with a comparative total balance paper/statement of position and revenue statement of activity, users can count the same cash flows from operating activities using the indirect method, and hence the indirect method gives no additional information. Consequently, two of the most-used tools, the investing activity and financing activity parts are arranged via the direct method, so it makes really sense that the operating activity part should be submitted on the same base.

Being said that, let’s question: why don’t more businesses or firms use the direct method preferably? There are some considerable and comprehensive reasons of course to investigate. So firstly, the indirect method is demanded and the direct method is up to will (optional). Secondly, preparing the operating activity part via the direct method also demands disclosure of the cash flows from operating activities using, in contrast, the indirect method, efficiently requiring double submitting and projection of the operating activity part. Then thirdly, dissimilar to the direct method, the indirect method can be prepared from actually any normal chart of finance. On the contrary, the information demanded to use the direct technique may not be easily existing and may be boring and hard to improve. Allegedly highlighting this, the whole financial software solely uses the indirect method to create a statement of cash flows. Knowing that FASB has extracted the demand to demonstrate both techniques while using the direct method, the single obstruction is the informational necessity. Hence, the time may be mature for financial statement preparers to reappraise their consideration of method and comprehend the advantages and benefit of the direct method again.

We found out that the main purpose of the Cash Flow Statement is to submit information about a company’s cash receipts and cash payments during the curtain timeframe (especially, reporting cycle). There is a secondary purpose; it is to ensure comprehension into the company’s investing and financing activities. To be more precisely, the statement of cash flows is intended to help investors and creditors define:

- Company’s capability to generate upcoming positive cash flows;
- Company’s capability to meet liabilities and pay dividends;
- Main reasons for differences between revenue and cash receipts and payments;

- Both cash and not-for-cash spheres of the company’s investing and financing transactions.

As we mention hereafter and repeatedly, the Cash Flow Statement must report cash flows during the financing time period categorized by:

- Operating activities;
- Investing activities;
- Financing activities.

We will refer to these activities in the next chapter more precisely and widely.

Some of the accounting standards of the world countries do not require a specific format for the Cash Flow Statement, so a company will categorize and submit activities in a way that is most appropriate to its business. At the same time, the ordination and presentation of similar activities must be coherent between reporting timeframes.

The overall volume of cash flows originating from operating activities is a main sign of the company’s effectiveness in generating efficient cash to repay loans, maintain the asset’s operating capability, pay dividends, and make new investments without applying to external sources of financing.

Cash flows from operating activities are mainly extracted from the principal income-producing activities of the asset. Some examples of the cash flows from operating activities are shown below:

Cash inflows	Cash outflows
cash receipts from the sale of goods and services	cash payments to suppliers for goods and services
cash receipts from royalties (that is, compensation for the use of patents, copyrights, etc. by others), fees, commissions and other revenue	cash payments to employees and for other operating expenses
decrease in inventories	increase in inventories
	payment of interest
	payment of taxes
increase in current liabilities	decrease in current liabilities

The distinguished disclosure of cash flows originating from investing

Cash inflows	Cash outflows
cash receipts from sales of land, plant and equipment, intangibles and other long-term assets	cash payments to acquire land, plant and equipment, intangibles and other long-term assets, payments related to capitalized development costs, and also for self-constructed plant and equipment
cash receipts from sales of shares or debt instruments of other enterprises	cash payments to acquire shares or debt instruments of other enterprises
cash receipts from repayment of advances and loans made to entities	cash advances and loans made to other entities
cash receipts for dividends and interest on investments	

activities is significant because the cash flows represent the extent to which expenses have been made for resources intended to generate upcoming revenue and cash flows. Some examples of cash flows that are from investing activities include:

The distinguished disclosure of cash flows originating from accounting activities is necessary because it is beneficial in forecasting claims on future cash flows by providers of capital to the company. In general, financing or accounting

Cash inflows	Cash outflows
cash proceeds from issuing shares	cash payments for redeeming the enterprise's shares
cash proceeds from issuing notes, bonds, mortgages and other short or long-term borrowings	repayment of loans (other than interest or creditor payments related to operating activities)
	payments of dividends to shareholders
	cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease

activities are activities that result in changes in the size and combination of the reporting business' equity capital and borrowings. Some examples of cash flows originating from financing activities are shown below:

Not-for-cash transactions that are consist of an investing or financing nature are not implicated in the cash flow statement. These comprise the obtaining of fixed entities by long-termed loans or finance leasing; payment of accounts payable by not-for-cash refers to some issuing and transferring extra interests to the creditors; or transfers between one not-for-cash substance and another.

As shown and demonstrated in the examples above, an enterprise may need land and buildings by borrowing under a long-termed lien, or it can transform long-termed bonds into common inventory. Yet these transactions offer rather complimentary investing and financing activities, but they are not externalized in the cash flow statement just because they do not include any movements in the enterprise's cash or cash equivalents. In lieu, important not-for-cash transactions like these must be disclosed respectively elsewhere in the accounting statements in a way that supplies all the needed information about the investing and financing activities.

Any company is advised to report cash flows from operating activities using the direct method.

By disclosing the major grades of before-tax cash receipts and gross cash payments, these may happen. Mentioned information can be achieved either via the accounting records or by calibrating sales, cost of sales, and other revenue statement materials for:

a) modifications that happened in the reporting time in the balances of stocks and operating receivables and payables;
b) not-for-cash-items;
c) other tools that are recorded as investing or financing cash flows, just like interest revenue on investments.

An asset should report respectively its major grades of before-tax cash receipts and before-tax cash payments originating from its investing and financing activities, apart from the circumstances which are described below, when they are recorded on a net base. We should take into account that reporting on a net base refers to report merely the counted difference between cash receipts and cash payments.

Consequently, cash flows which are resulted by operating, investing and financing activities are recorded on a net base if these are cash receipts and payments:

a) Per pro consumer, such as while the cash flows affect the activities of the consumer rather than those of the asset. For instance, the receipt and payment of consumer balances in a requirement deposit account for a organization or rents gathered for and paid to the holders of the commodity;

b) For entries in which the transfer is fast, the amount of cash is large, and the expirations are short. For instant, the buying and sale of so much short-termed investments and other short-termed borrowings that have expiration time of four months or less.

A close look at the cash flow statement preparation: An example of illustration of preparation of cash flow statement is shown below, which based upon the balance paper, revenue statement and some supplemental transaction information maintained.

Balance Sheet as of December 31, XXXX Company A				
	31/12/X0	31/12/X1	Difference	
Assets				
Current assets:				
Cash	15,000	46,000	31,000	Increase
Accounts receivable	55,000	47,000	-8,000	Decrease

Inventory	110,000	144,000	34,000	Increase
Prepaid expense	5,000	1,000	-4,000	Decrease
Total current assets	185,000	238,000	53,000	
Financial investments	127,000	115,000	-12,000	Decrease
Fixed assets	505,000	715,000	210,000	Increase
Accumulated Depreciation	-68,000	-103,000	-35,000	Increase
Total fixed assets	437,000	612,000	175,000	
Total assets	749,000	965,000	216,000	
Liabilities				
Current liabilities:				
Accounts payable	43,000	50,000	7,000	Increase
Accrued liabilities	9,000	12,000	3,000	Increase
Taxes payable	5,000	3,000	-2,000	Decrease
Total current liabilities	57,000	65,000	8,000	
Long-term liabilities:				
Bonds payable	245,000	295,000	50,000	Increase
Total liabilities	302,000	360,000	58,000	
Equity :				
Ordinary shares, 5 euro par	200,000	276,000	76,000	Increase

value				
Paid in capital in excess of par value	115,000	189,000	74,000	Increase
Retained earnings	132,000	140,000	8,000	Increase
Total equity	447,000	60,500	158,000	
Total liabilities and equity	749,000	965,000	216,000	

Income Statement		
for the year ended December 31, XXX1		
Company A		
Net sales	698,000	
Cost of goods sold	520,000	
Gross margin		178,000
Operation expenses (including depreciation of fixed assets 37,000 euro	147,000	
Profit from ordinary activities		31,000
Other income and expenses from non-operating activities:		
Interest expense	23,000	
Interest income	6,000	
Gain on sale of securities	12,000	
Loss on sale of fixed assets	3,000	
Total other income and expenses		(8,000)
Profit before taxes		23,000
Income taxes		7,000
Net profit		16,000

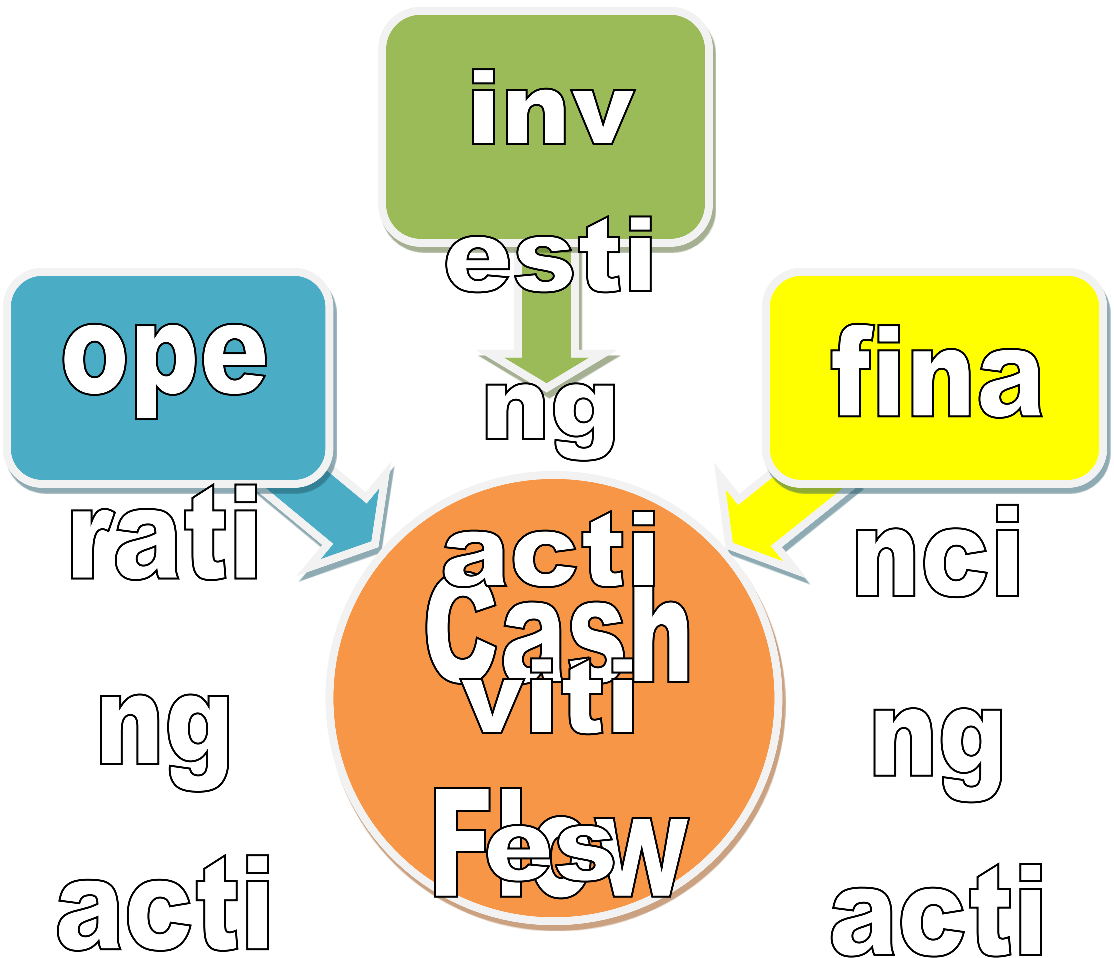
CHAPTER II

.METHODOLOGY FOR THE FORMULATION OF THE STATEMENT OF CASH FLOWS AND INCREASING ITS INFORMATICS

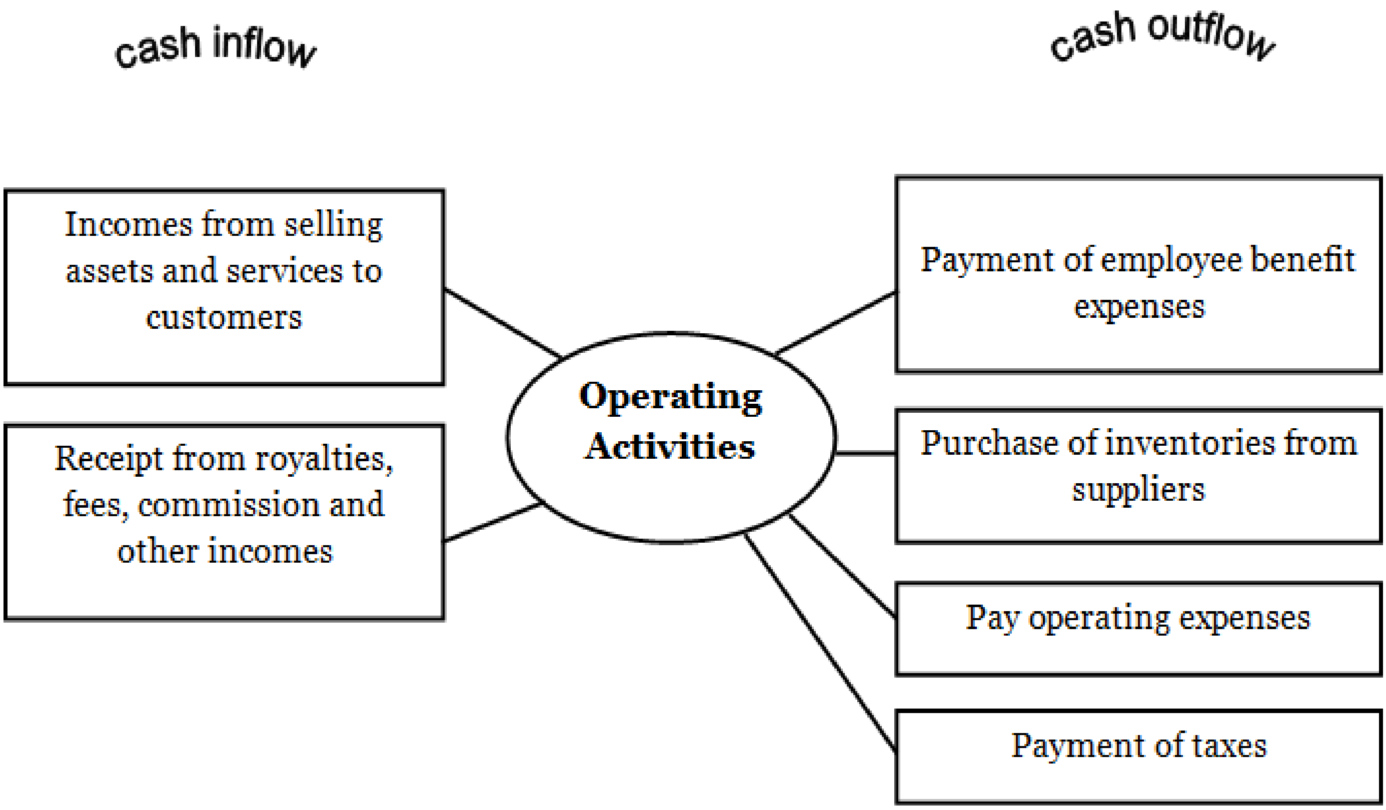
2.1 Presentation of cash flows from operating activities

Before mention the importance of cash flow statement and its place in modern accounting, let's have a look at its history as a term in hand and use. Because if we want to gain enough information about cash flow statement and understand its 'flow', we need to concentrate on the origins of the term before. In the year of 1998, the CICA decided to change section 1540 of the well-known CICA Handbook (back in times and even today it's very popular among auditors and accountants) and modify the "statement of changes in financial position" phrase into "cash flow statement." From that time this term became very popular and easy-for-use and even keep in mind. As a matter of fact, that change did not affect the preparation of the cash flow statement actually, and it is still grounded on the cash and cash equivalents. Usually, this statement are being applied to any kind of businesses unless a company has some comparatively simplistic operations, with few or no important financing and investing activities, and overall effects of them on cash flows are certain or evident from the other financial statements or are efficiently indicated in the bills to the financial statements. For instance, we cannot implement the cash flow statement to pension accounting or not for-profit organizations just because of the computing rules of them are different from the others. Cash flow statement may be considered to have some similarity with an income statement; hence it abstracts a business' activities whilst a particular or apparent period of time. Statement of income, although, only is consist of the activities of operating. But in the other hands, cash flow statements do not only attribute on operating activities, but also on investing and financing activities and this wide range of usage is one of the main advantages of that statement. There are obvious principal and primary differences that should be taken into account between cash flow statement and single income statement and one of them is the preparation phase of both, namely we prepare income statement with the help of growth basis of accounting, but when it comes to cash flow statement, it certainly includes cash's inflows and outflows counterpart and so that it's prepared on the principle of cash.

We know that a cash flow statement is a financial paper or statement that portrays the overall cash resources of a business, but at the same time, in a cash flow statement it's also demonstrated how that amount of cash is spent during a specific period of time. It's important to mention: it cannot include any items that are different from cash, it's only based on the cash items, not non-cash ones. As known well, cash flow statement is an only cash-oriented or cash-based financing report or accounting paper and may be divided into three types of activities: operating activities, investing activities and financing activities, as we are going to refer to the first type, operating activities hereby. The activities that do not include cash-based operations are generally reported in annotations (or footnotes). With the help of that separation, we are able to determine the short-term viability of a business or firm and especially, are able to know if it can pay bills or not.



Just because of the overall importance of cash flow statement in any business or company's accounting system (which can even be described as 'crucial'), most of the researchers suggest or propound every entrepreneur or company to investigate a cash flow statement at least ever half or quarter of the work-year. As we mentioned before, cash flow statement is dramatically similar to single income statement and the origin of the similarity lies here: cash flow statement also records a business' overall performance during a specific time frame as well. The obvious difference between the two is when we prepare income statement; we should take into account the non-cash parts of the statement like amortization. But when we prepare cash flow statement, its overall intention is to demonstrate how much money the company has constituted actually. And not only has it showed the movement of the money, it also demonstrates how a business has managed its inflows and outflows of cash, so, how efficient its performance actually is. And it provides an acute view of a business' capability of paying 'claimants', creditors and growth of revenue.



Cash flow statement gives accurate information about proper data of the cash receipts and amount of the payments of a company during a financial year. And there is no doubt that it is the most important and needed information to stockholders and payees. Dividends are considered as a part of the investment return, so stockholders usually expect to take dividends and here comes the main role of cash flow statement; it's known that the capability of paying cash dividends always depends on the cash flow effectiveness. Creditors always make some loans to businesses and that's why they may sometimes be worried about a company's ability to make interest and main payoffs. There may be also some stakeholders like suppliers and employees which are worried and have a concern about if the company will be able to meet its liabilities.

If there is not enough cash on hand to pay off the bills and invoices, a company may also be shown to be profitable according to the standards of finance but in fact, it is under the risk of bankrupting. There is also a term of ‘operating cash flow ratio’ which means comparing cash which generated to unpaid debt and it is able to show overall ability of a business or firm to service its debits and interest payments. And even a small probable drop in a firm’s cash flow would endanger its ability to make debit payments and that means the company is in danger, has a risky position in compared with the decreased, but yet solid cash flow level. Unfortunately, there are so few ways for a firm to manage its cash situation when comparing with the many ways to present and report earnings. Preventing any downright and malicious swindle cases, cash flow statement shows the entire story of the financial movement of a company. There is not another way, the firm has cash or not. Researchers as a matter of fact, will control cash flow statement of any company indeed and firstly in order to understand its total welfare. Because there are some simple-seem, but necessary questions about a business which only statement of cash flows is able to show eventually:

1) From where did cash come over a certain period of time?
2) What is the exact amount of cash which was used over a certain period of time?
3) And in the end, what is the alteration or change in cash balance over a certain period of time?

It’s also important to mention the overall necessity of cash flows. In general, investors, creditors, stockholders, businesses and managers use the information gathered via cash flow statement to make an end decision about any business’ success and ability to take obligations or creating new opportunities for development. In fact, information about the recent amount of cash flows gives a basic and total view for the suppliers and creditors and it can help to predict the timing and certainty of cash flows which belongs to future. Information of cash flow statement is also important and useful for appraising the liquidity, monetary flexibility and solvency of a business. Here we need to explain some terms:

- Liquidity means the ability of a business or firm to pay its present obligations with available liquid assets.
- Solvency means the ability of paying all liabilities as they fall due, for example, a firm may be clearly willing to raise money by removing shares.
- And monetary or financial flexibility means the ability of a business to operate its resources to comply with modification and take advantage of business chances or opportunities as they emerge.

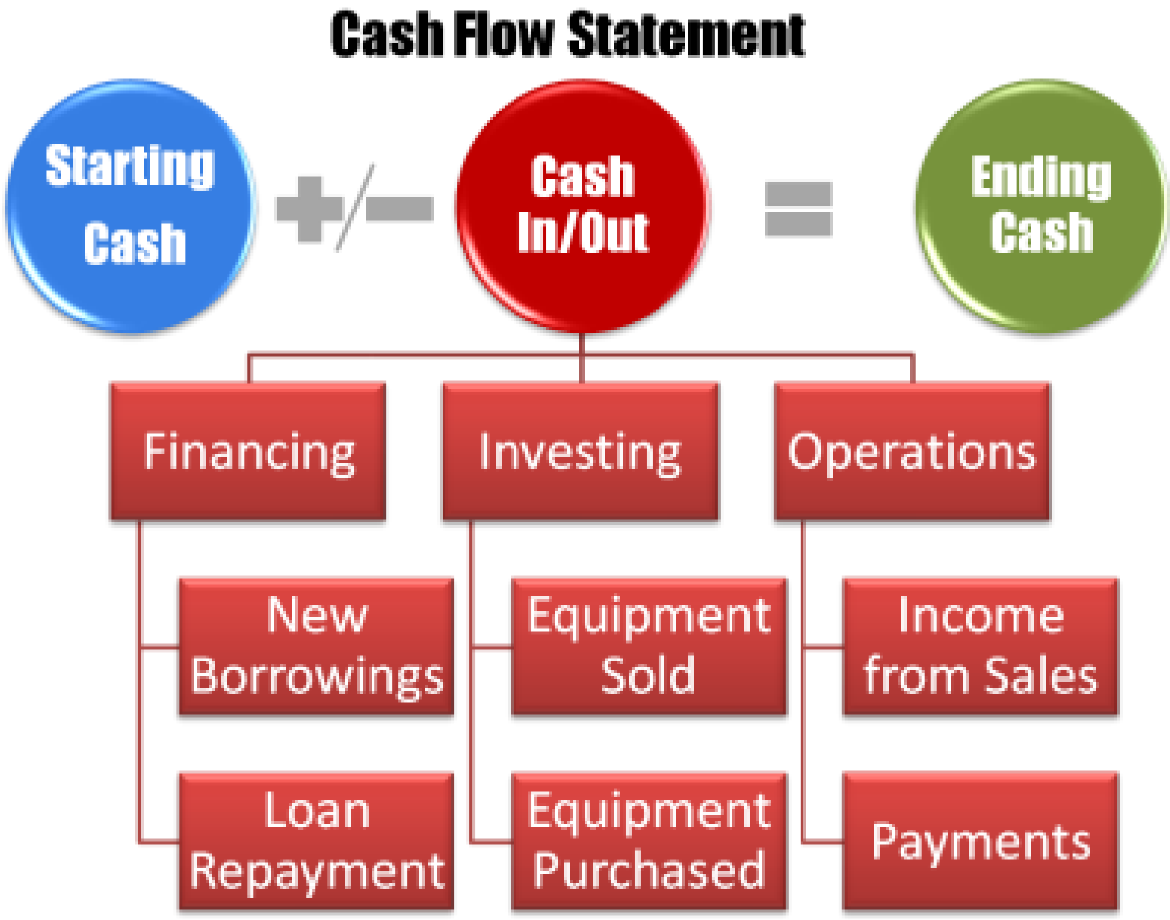
Cash flow statement was known as a statement of changes in financial position before but now CFS term is more popular and useful. According to some researchers, cash flow statement is created to help a user make these assessments and to find answers to some questions as:

- What is counted to reveal the difference between overall cash and its provisions at the beginning and end of the current work year?
- For what purposes was the cash collected from the sale of stocks and shares used?
- Was the company able to finance its purchases of any kind of capital assets?
- Was it truly possible to pay percentages while the business notified a net loss on its current income statement and if yes, how?
- Does the company have the capability to pay the mortgage on its current building?

EXAMPLE OF CASH FLOW STATEMENT

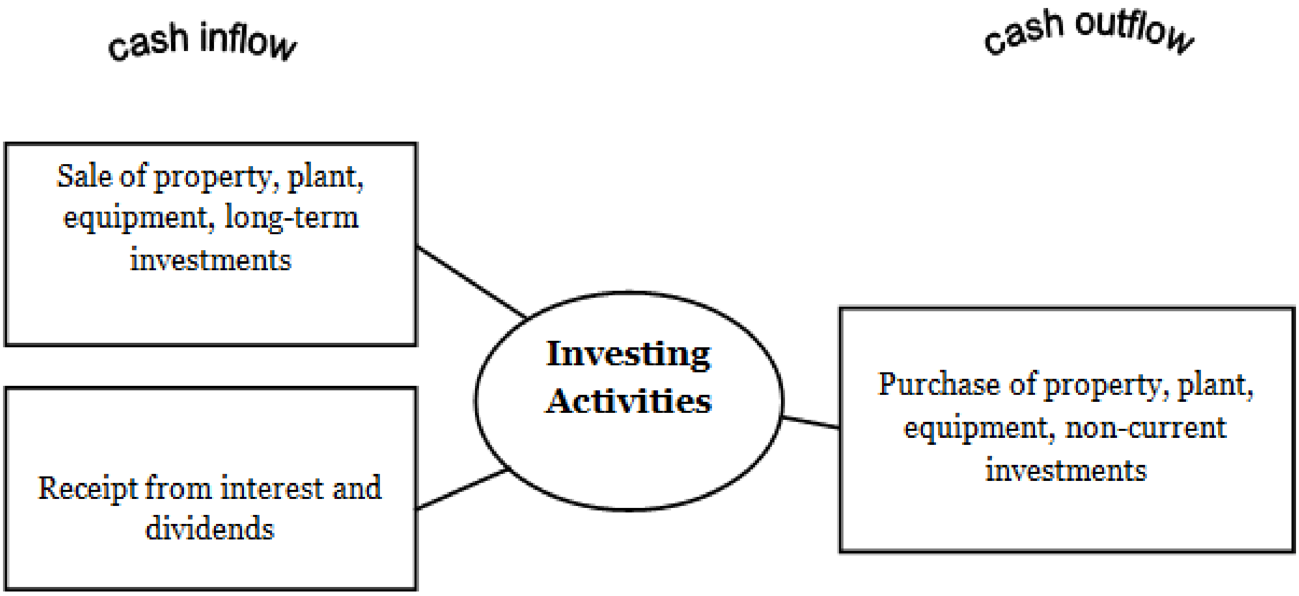
DESCRIPTION	**2014-15**	**2014-13**	**2012-11**	**2011-10**
Profit Before Tax	68.05	32.56	92.80	55.56
Adjustment	250.10	257.74	204.65	220.95
Changes In working Capital	289.44	93.88	-47.42	122.03
Cash Flow after changes in Working Capital	611.91	383.63	253.12	433.16
Interest Paid	-	-	-	-
Tax Paid	8.75	-6.56	-13.80	-56.32
Other Direct Expenses paid	-	-	-	-
Extra & Other Item	-1.21	3.45	-17.77	-0.60
Cash From Operating Activities	620.44	380.59	221.54	376.24
Cash Flow from Investing Activities	-630.54	-532.61	-286.11	-205.52
Cash from Financing Activities	47.95	169.56	116.56	-146.40
Net Cash Inflow / Outflow	38.86	18.54	50.98	24.32
Opening Cash & Cash Equivalents	152.03	135.49	83.50	59.18
Cash & Cash Equivalent of Subsidiaries under liquidations	-	-	-	-
Effect of Foreign Exchange Fluctuations	-	-	-	-
Closing Cash & Cash Equivalent	**190.90**	**153.03**	**134.50**	**83.55**

And here comes the importance of investigating the financial nature of cash flow statement and its current activities. As we mentioned before, it was divided into three activities: operating activities, investing activities and financing activities. Operating activities include approximately all cash flow transaction which is not identified as investing or financing activities. These activities are counted to related to the principal and main operation of the firm in generating incomes and undergoing expenditures. Businesses always expect to create more cash inflows from purchasing products and services than they expend in doing like so. As we all know, as a general rule, revenues or incomes are recorded when they are earned, but expenditures are recorded when underwent. Hence incomes and expenses rarely match perfectly with their suitable cash flows. For instance, of $50,000 sales during the last financial year, maybe only $20,000 are gathered in the same period as well. Apart from cash flow statement, single income statement includes non-cash expenditures like depreciation or amortization. Depreciation expenditure decreases overall income without a suitable reducing in cash. We should consider the operating cash flow activities as those which affect net revenue as well as assets and present obligations (circulating capital accounts or operational accounts). Modifications in circulating capital accounts are inclined to be much more influenced by the business' growth rate. We can say that widening businesses will always report important and considerable increases in accounts credits and inventories. If a business is supported by suppliers to finance these expected increases, we may be able to see an upward change in accounts payable. However, some modifications in current charges are not always considered as operating activities. For example, changes in percentages payable and interest laden to kept earnings are considered as financing activities. If we want to remember the previous example, we said a company may account increases in accounts receivable and inventories due to taking loans equity financing. It may seem controversial, but taking loans or equity financing are not classified as operating activities.



2.2 Presentation of cash flows from investing activities

Generally, investing activities of cash flows are some operations for buying and selling capital assets and other productive goods. Capital assets are needed on account of increasing productive capacity. Acquired cash for this dilatation may come from the sale of current goods which are considered as less efficient. This part of cash flow statement often represents a net cash outflow, because firms usually spend more cash than they receive by the sale of long-term goods. Hence the expected additional cash must come from other operations and resources to finance capital expenditure. These kinds of activities also include purchasing or selling of long-dated investment securities like links or margins of other firms.



The need to repeat what we learned so far is obvious and the analysis of cash flow statements and its activities is a must to be aware of. As we said in the beginning of this chapter, cash flow analysis is primary vital and used as a tool to appraise the resources and uses of funds. Like we mentioned, cash flow analysis is for getting insights about a business' financing gain and deploying resources, but it can also be used as a section of liquidity analysis and in the cash flow estimating or prediction. Previously cash flow statement was referred as the flow of cash statement.

FORMAT FOR ESTIMATING NET CASH FLOW FROM OPERATING ACTIVITIES (**DIRECT METHOD**)

Particulars	Amount in AZN	Amount in USD
Cash sales	...	
Cash receipts from consumer	...	...
Cash paid to suppliers	...	...
Cash paid to employees	...	...
Cash paid to expenses	...	...
Cash generated from operations	...	...
Income – tax paid	...	...
Cash flows before extra-ordinary items	...	...
Proceeds from earthquake disaster settlement	...	...
Net cash from operating activities	...	...

FORMAT FOR ESTIMATING NET CASH FLOW FROM OPERATING ACTIVITIES (**INDIRECT METHOD**)

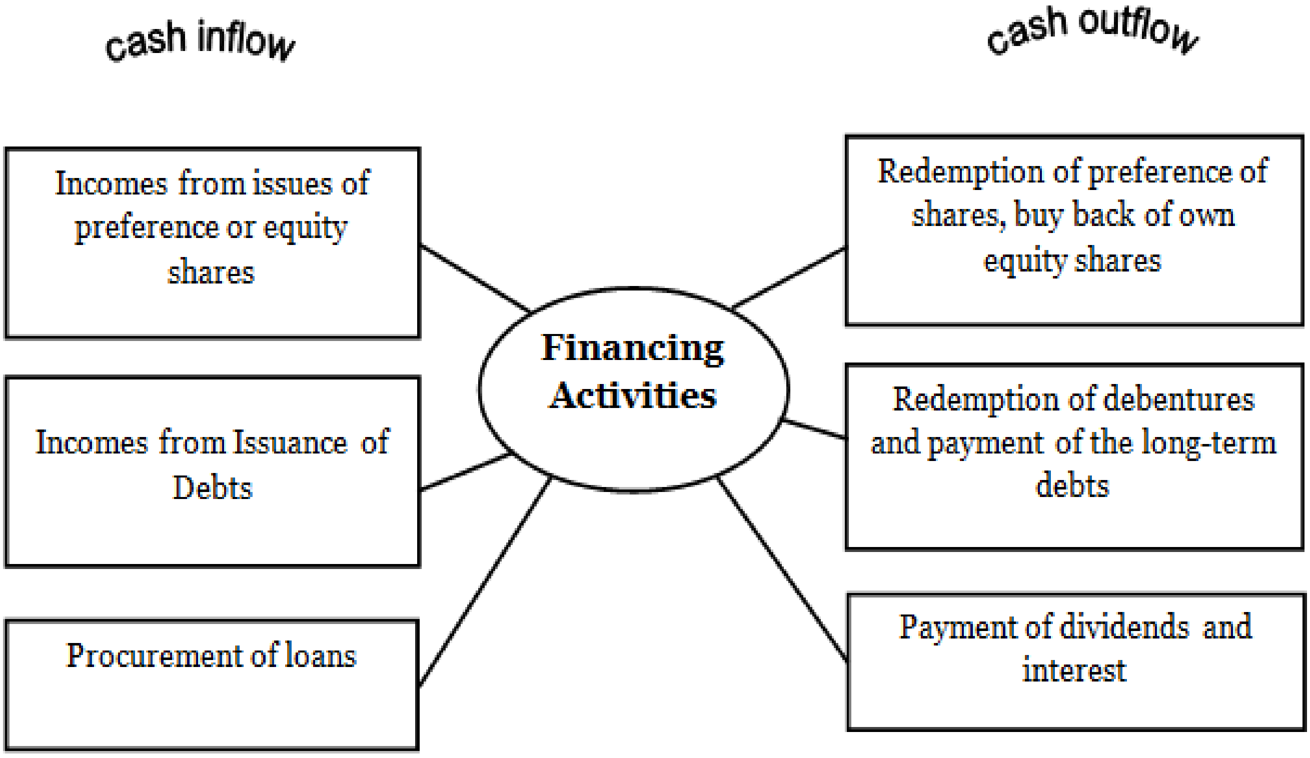
Particulars	Amount in AZN	Amount in USD
Net Profit before taxation and extra-ordinary items	…	
Adjustments for Depreciation	…	…
Loss on Sale of Assets	…	…
Foreign Exchange Loss	…	…
Profit on Sale of Assets	…	…
Interest Expense	…	…
Income from Investments	…	…
Operating Profit before Working Capital Changes	…	…
Increase in Current Assets	…	…
Decrease in Current Assets	…	…
Increase in Current liabilities	…	…
Decrease in Current liabilities	…	…
Cash Generated from Operations	…	…
Income-tax Paid	…	…
Net Cash from Operating Activities	…	…

It is considered cash flow statement can externalize a company's liquidity. The balance paper is an instantaneous picture of a company's financial sources and liabilities at a curtain point in time and the revenue statement abstracts a company's financial transactions over a curtain period of time. And in conclusion, these two financial statements externalize the expansion basis accounting used by companies to compare incomes with the expenditures joint with generating those incomes. We should be aware of that cash flow statement only includes inflows and outflows of cash and cash coequals; it exempts transactions which do not straight affect cash vouchers and payments. These kinds of non-cash transactions also consist of amortization or write-offs on bad debts or loan losses to name. It's also considered that cash flow statement has an overall intention to:

- Gathering enough information about a company's liquidity and solvency and its capability to modify cash flows in the circumstances of future;
- Gathering additional information about appraising changes in assets, obligations and equity;
- Improve the equivalence of different company's operating performance due to diminishing the influences of various accounting methods.
- Exude the current amount, timing and possibility of the cash flows which are expected to account in near future. As a result of this, cash flow statement has been favored as a standard accounting statement; it also decreases assignments, which might be extracted from various accounting procedures, such as different timelines for diminishing fixed assets.

2.3 Presentation of cash flows from financing activities

Financing activities may influence a company's capital nature, its liability and equity. A business' transactions with its holders and obligees also refer to financing activities, but it does not include cash payments to locate credit purchases of commodities, because they belong to operating activities. Financing activities include the usage of cash to pay off shares and stockholders, the borrowing or settlement of debt and selling or repurchasing of shares. At first glance, it may be seem confusing, but we need not to shuffle shares declared and paid with dividends received from all of the investments. Dividends settled are a cash outflow which is considered as a financing activity, at the other hand, dividends received are hence categorized as an operating activity.



2.4 Presentation of information on cash flows denominated in foreign currencies

International Accounting Standards (also known as "IAS") is popular because of its papers' usage among the accountants and financial managers around the globe. In IAS "7.24", it is demanded to require cash flows originating from transactions in a foreign currency to be enrolled at the current exchange rate between an asset's available currency and the foreign currency at the exact date of preparing the cash flow statement. One of the similar approaches is that it demands for cash flows of a foreign assistant (which shown in "IAS 7.26"). Another paper, IAS "7.27" notifies that cash flows denominated in foreign currencies are dealt with in a posture that is coherent with that demanded by "IAS 2" ("The Actions of Changes in Foreign Exchange Rates"). In the consequence, it is totally possible to use exchange rates that approach the exchange rates at the last dates of transactions or operations (for example, a quarterly rate or, if exchange rates are steady, an annual rate). Being said that, the usage of the timeframe's end rate for transactions that happen during a reporting period is not allowed as well. One of the most-used standards, "IAS 7.28" consists of unperceived gains and losses originating from transactions in foreign currency, and states that: 'Unperceived or unrealized gains and losses originating from changes in foreign currency exchange rates may not be considered cash flows. Although, the impact of exchange rate changes on cash and cash commensurate held or due in a foreign currency may be reported in the cash flow statements on account of reconciling cash and also cash equivalents at the beginning and the end of the timeframe. As a rule, this amount of cash is submitted respectively by cash flows from operating, investing and financing activities and implicates the differences, if any, had the same cash flows been declared at end of exchange rates of period.' This stands for that unperceived exchange differences in point of cash and cash equivalents are not categorized as operating, investing or financing. In lieu, those unperceived exchange rate differences are submitted as a distinct, conciliating item, between opening and closing equilibriums of cash and cash equivalents in the cash flow statements.

2.5 Directions for increasing the information of the statement of cash flows

As a rule of accounting, it is not important for an account standard to demand or allow a particular technique for reproducing "cash flow operations". Because of the conciliating of overall profit and cash flow by operating activities are demanded, one of the two methods – the indirect method is used widely and literally in experience: however the direct method cannot be forbidden as well. At the same time, an accounting standard should classify the true fragments of cash flow by operating activities which are considered as especially important and call for clearance either of the amount of those pieces or of changes which are involved with working capital entries. Maybe the issue that had attracted most attention about the overall cash flow statement is the division of direct and indirect methods and the problem of which one should use firstly. When implementing the direct method the current amount of cash flow dealing with phases of transactions within operating activities is probably indicated, for instance, the total amount of cash gathered from consumers. When applying the indirect method, cash flow statement regulates an amount of profit or other items which are apart from cash on account of deriving the amount of cash flow by operating activities.

As a general rule, financing and investing activities are prepared via the direct method. The standard of "IAS 7" advises cash flow which is related to operating activities to be prepared using the direct method, but also allows the indirect method as another option.

The most mentioned advantages of the direct method include:

- Via the direct method, we can report the actual or current cash flows which are related to every activity and items that mentioned before;
- As a technique, the direct method is much more intense and easier to comprehend;
- Whenever direct method is used, the cash flows dealing with operating activities may be comminuted;

Hence, for instance, the amount of cash received from consumers or purchasers, cash paid to vendors and cash paid to employees should be respectively recorded. This separation may assist users in evaluating the total amount, timing and ambiguity of future cash flows.

Researchers Hales and Orpurt overview the basic literature and state that it confirms that the segments of cash flow acquired by the direct method provide more information useful for forecasting the upcoming operating cash flow and revenues. A requirement to use the direct method was proposed in the IASB's Discussion Paper 'Preliminary Views on Financial Statement Presentation' (September, 2007) and the Staff Draft 'Financial Statement Presentation' of June 2010. Reaction and public assistant in connection with these unclosed that many disagreed. And we can claim that one of the main uneases expressed was the price that such a modifying would implement to the arrangers of financial statements. It may be, however, that much of the cost would be in making the changes to systems necessary to produce a direct method cash flow statement, and that on-going cost implications would not be great. This would be coherent with some proof from all over the world that assets previously were required to use the direct method and, following the motion to IFRS are now allowed a choice, continue to use the direct method. Rather than preparing a direct method statement of cash flows from cash records (the 'direct direct method') a direct method cash flows statement can be prepared by maintaining a revenue statement line item for changes in related goods and duties (the 'indirect direct method'). If we need an example, let's consider it: the amount of cash collected from consumers can, in a simple manner, be found by regulating transfer by the amount of changes in consumer receivables. Preparers are, however, not persuaded that expressly permitting the indirect direct method would importantly decrease costs. A discontent also exists about reporting amounts that may be considered as being highly important and objective if it is the product of a process that demands the use of estimations. And it is often proposed that investors and other users of accounting statements would like to choose direct method cash flow statement. However, the evidence is rather equivocal. Public assistant carried out by the FRC shows that views are separated: though an eye-catching number, perhaps a small majority, prefer a direct method statement of cash flows there are also many people who unclose a strict admiration for the indirect method. One of the recent studies around the globe (and this one is from the Confederation of Swedish Enterprise), which is based on forty in-depth interviews with conversant capital market influencers, deduced: most respondents told that they looked at the current statement of cash flows, focusing on changes in working capital assets. Another common focus area in the cash flow statement was amortization. And these findings exude that conversant customers find information that is available in an indirect cash flow statement to be beneficial. No respondents pointed out that they would have preferred a direct statement of cash flow. That conciliation provides much of the important information that is provided by an indirect method statement of cash flows as submitted under current practice. This factor is intending to change the question: rather than being whether the direct or indirect method should be required or allowed, the issue becomes: what more detailed information on the parts of cash flow from operating activities should be needed? For example, cash collected from customers is often mentioned as a particularly significant item for financial analysis. It is also rather possible to demand disclosure of that quantity. And if so, it would be stressed that it could be prepared by the 'indirect direct method'. An alternative approach would certainly be to demand additional disclosures that would support users to derive the amount of parts of cash flows from operating activities. For instance, if the change in accounts receivable from consumers were separately reported it would seem to be possible for users to derive the amount of cash received from consumers. However, this statement is true if only the changes in accounts receivable from consumers are:

- Increasing due to sales;
- Reducing due to cash collections.

There may also be unexpected or unpredicted changes - for instance, from the impact of changes in foreign currency rates and degradations. Being said it; this disclosure reaches its objectives only imperfectly. Nevertheless it may be controversial to have an acceptable concession as it would probably be less costly than the other ones (alternatives). It is also important to take into account whether any or all of the required parts should be within the cash flow statement or submitted as complementary information. Even so, it obvious that the practicability of the information required can be ameliorated beyond that required by “IAS 7”, which can be commentated as not requiring any of the parts of changes in working capital to be revealed. We have absolutely nothing in hand to prevent the disclosure of information beyond the minimum demands of a standard. So, in conclusion, assets that chosen to include an exhaustive cash flow statement prepared under the direct method in their financial statements would be totally free to do, so ensure the lapsed components were disclosed.

CONCLUSION

As we all know, the three standards of most-used financial papers or statements consist of the balance sheet, the income (also known as profit & loss statement) sheet and the cash flow statement. Profit & Loss statement is usually classified as the most significant and used-in-hand statement by almost all owners, managers, and researchers, although, an average accountant or financer can consider a powerful question about why the Balance Sheet is truly the most necessary statement of the all of three. Of course, there is also the Cash Flow Statement, usually overlooked, often misapprehended and glazed upon with a short-winded look, but also very significant and internal part of the financial sheets. It's considered that the Cash Flow Statement is the latest block of financial statements that was firstly demanded on the financial statements of businesses and firms in 1988, but is also a complementary part of financial reporting that connects the other reports with one another for a whole picture of a company's financial welfare. It demonstrates how holders and other financial statement users use one very significant thing – how much cash in total amount the business produces.

The cash may come from both internal and external resources and the Statement of Cash Flow helps businesses and financiers distinguish and watch the differences and rates of the cash inflows and outflows. Internal resources usually stand in front of the external cash resources as opposition and demonstrate a business with successful qualifications and guarantees which include:

- precluding and tracing company debt

- precluding unimportant expenses from interest, late payment fines and debt damages
- providing timely investment and cash which is available for investment chances
- providing timely settlement of expenditures and debts
- Most necessarily – providing a grade of steady business revenue without trusting outer investment or cash raising.

Efficiently administrating and tracing cash flows may serve so many beneficial purposes. And of course, the most important reason is to preclude holders and managers insight into the business' cash status. This information better outfits management to make sensible resolutions about steady business operations, the overall necessity for further investment in the company and capital from equity or debt shareholders. We should undoubtedly claim that cash management is something that most companies of all kinds struggle to accomplish perfectly. Whilst the Cash Flow Statement is in no ways the only technique of tracing cash flows, it is also a complementary component of the reporting sheets and must not be disregarded by the accounting statement users.

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