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CURRENT APPROACHES TO THE PREPARATION OF THE CASH FLOW STATEMENT AND THEIR PRACTICAL APPLICATION

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Abstract: One of the important strategic goals of organizations is not only the generation of financial profit, but also the generation of liquid cash. Information on changes in cash and cash equivalents during the reporting period should be presented in the corresponding statement in the form of cash flows. This allows users of financial information to assess the ability of organizations to generate cash, as well as their ability to manage and increase the volume of future cash flows.

Keywords: direct and indirect cash flow statements, financial statements, International Financial Reporting Standards, reporting period, IFRS 18.

JEL code: 41

Research aims: introduce amendments to the cash flow statement structure due to the requirements of IFRS 18.

Research novelty: have been made recommendations for improving the cash flow statement submitted by organizations, which stem from the requirements of the IFRS 18 international accounting standard.

Introduction

Cash is considered the most liquid and important asset, since it is immediately used to repay liabilities and finance current activities. The ability to effectively manage cash flows becomes the basis of the stability and success of any organization. Based on this circumstance, cash flows are of primary importance for organizations, which are often more important from an analytical point of view than accounting profit.

Even the most profitable organizations can face a cash deficit if cash flows are not managed correctly. And this management can be carried out through a cash flow statement, which reflects the inflows and outflows of cash, their structure and the efficiency of its use.

Based on the document "Cash Flow Statement", it becomes possible to:

- ✓ assess the effectiveness of the organization's investments,
- ✓ assess the results of the organization's activities and its ability to attract additional financial resources.

The cash flow statement is the only report that is compiled using the cash method and presents their movement at the time of receipt and payment. The peculiarity of this report is that it reveals data that are not included in other basic financial statements and

complements the financial picture of the organization. In addition to the above, the report shows the relationship between profitability and the ability to generate cash, which makes it possible to assess the quality of the profit received. The report also allows you to assess the flow of cash within various activities: operating, investing and financing, as well as to find out how effective the organization's resources are allocated. Such an analysis can be used both by managers to make management decisions, and by external investors, shareholders and financial institutions to assess the organization's future development opportunities.

Literature Review

Comprehensive information on cash flows, effective management and control can be obtained from the standard IAS 7 “Statement of Cash Flows”.

Braley, Myers and Allen (2017) in their joint work described cash flows as flows from production activities, which are estimated by deducting from sales revenue the cost of goods sold, other expenses and other indirect taxes.

Boissou and Phelps (2023) in their manual “Cash Flows” offer a broader interpretation, considering cash as instruments in circulation, such as money orders, certified checks, personal and bank checks.

The authors of the studies published in recent years, Dolgikh, Bakunova, Trofimova and Panfilova, have identified three main stages of cash management mechanisms:

1. Analysis of cash in the previous period of the organization,

2. Determination of the balance of the amount held in the current account, ensuring the solvency of the organization,

3. Effective planning and management of cash flows, as well as the profitable use of temporarily free funds.

Studies of various literature and regulatory acts related to the nature of cash and its flows, as well as management mechanisms, showed that the general concept of "cash flows" management has been little studied (Vyshlov, 2025). The authors have several classifications, but their combination has not formed a common approach, which also applies to the preparation of the report: some of them are supporters of the direct method, the other - of the indirect method. We will try to fill this gap as a goal in further analyses (Brealey et al., 2017).

Research result

There is a common misconception that high profitability automatically guarantees high solvency. In fact, for organizations, generating cash is as important as generating profit, and it is not necessary that these two indicators grow in parallel.

These two parallels are reflected in the Profit or Loss Statement and the Cash Flow Statement. The latter has two methods of preparation and presentation, and based on the cash method, two main directions are distinguished: inflows and outflows, inputs-outputs.

Such a grouping makes it possible to see from which directions the organization's cash inflows are received, and in which directions the outflows are carried out, respectively. The combination of these three types forms the total change in cash and their exchange rates (Boissou & Phelps, 2023).

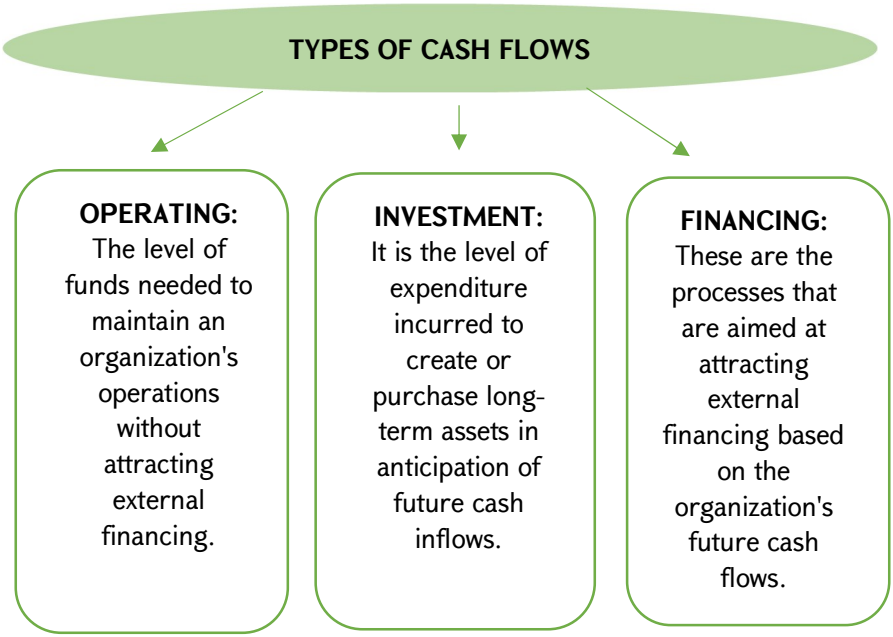

Figure 1. Types of Cash Flows
Source: *Authors' own work.*

The presentation of cash flows from operating activities is based on two calculations: direct and indirect. In the case of cash flows from investing and financing activities, the application of direct and indirect methods is not distinguished.

In the case of using the indirect method, cash flows from operating activities are obtained by recalculating the net profit or loss of the reporting period with non-cash flows. The latter are those items that are recorded in the financial statement, but do not give rise to actual cash flows (income, expenses, gains and losses)

Table 1. The impact of changes in non-cash items on profit/loss for the year
Source: *Authors' own work.*

Article	Change in profit/loss for the year
Depreciation	Amortization Add (+)
Gain/loss on disposal of fixed assets	Gain: Decrease (-) Loss: Increase (+)
Impairment loss/reversal of loss	Loss: Add (+) Reversal: Reduce (-)
Interest expense	Add (+)
Income tax expense	Add (+)

Then, the impact of changes in working capital, the organization's current assets and liabilities, on cash flows from operating activities is assessed. It is important to note that the amount of net cash flows from operating activities is the same for both direct and indirect methods. Investing and financing activities remain unchanged. IAS 7 Statement of Cash Flows encourages the use of the direct method. However, from 1 January 2027, entities will have to transition from IAS 1 to IFRS 18, which will also affect the structure of the Cash Flow Statement.

IFRS 18 Presentation and Disclosure in Financial Statements, issued by the IASB and effective from 1 January 2027 (replacing IAS 1), introduces significant changes to the structure of the income statement (income and expenses).

Although the cash flow statement is still governed by IAS 7, significant consequential amendments have been made to IAS 7

with the adoption of IFRS 18. Their purpose is to align cash flows with the new profit or loss structure and to enhance comparability.

Here are the main changes that apply to the cash flow statement under IFRS 18:

1. Elimination of the choice of classification of interest and dividends.

Previously (prior to IFRS 18), IAS 7 allowed companies to make accounting policy choices about where to include interest and dividends received/paid. IFRS 18 removes this freedom almost entirely.A strict classification is established for organizations (see table 2).

Table 2. Reflection of articles within the framework of the new standard

Source: *Authors' own work.*

Type of cash flow New approach after adoption of IFRS 18	Current under IAS 1 and IAS 7	New approach after adoption of IFRS 18
Interest paid/finance expenses	Operating or financing activity item	Financing activity item
Dividends paid	Operating or financing activity item	Financing activity item
Interest received	Operating or investing activity item	Investing activity item
Dividends received	Operating or investing activity item	Investing activity item

2. Clarification of the starting point for the indirect method.

When entities present cash flows from operating activities using the indirect method, they must make adjustments to the profit indicator.

Currently, various indicators were used as the starting point, such as net profit, profit before tax, etc. Starting from January 1, 2027, as required by the IFRS 18 “Presentation and Disclosure in Financial Statements” standard, the single and mandatory starting point for the indirect method is Operating Profit, which is a new mandatory subtotal in the income statement defined by IFRS 18.

3. Reconciliation with the Income Statement.

IFRS 18, Income Statement, divides the Income Statement into 5 distinct categories: operating, investing, financing, income taxes, discontinued operations. The cash flow statement has three main sections (Operating, Investing, Financing). Although the names of the categories in these two statements are the same, their definitions are not entirely identical, but the amendments to IFRS 18 are aimed at ensuring that the recognition of income/expenses and the related cash flows are as coherent and logical as possible.

With the introduction of IFRS 18 Financial Statements - the cash flow statement becomes more regulated. The use of subjective approaches by companies (in terms of interest and dividends) is reduced, and a clear link is ensured between the "Profit/Loss from Operating Activities" line of the financial results statement and cash flows.

The accounting case of the conditional "Alfa" CJSC looks like this:

- ✓ Sales: 1,200,000 drams of revenue were accrued, of which the buyer paid 1,000,000 drams.

- ✓ Operating expenses: salary payment: 200,000 drams, cash paid to the supplier: 500,000 drams, accrued accounts payable on purchases amounted to 600,000 drams.
- ✓ Loan interest: 60,000 drams of interest expense were accrued.
- ✓ Dividends: 300,000 drams of dividends were received for investments in other companies.
- ✓ Depreciation was accrued: 50,000 drams.
- ✓ Income tax; 40,000 AMD of income tax was calculated and paid
- ✓ Operating profit was 350,000 AMD.

According to the rules of IFRS 18, the statement of cash flows will look like this, both using the direct and indirect methods:

Direct method:

Operating activities
Revenues from sales of products 1,000,000
Cash paid to suppliers (500,000)
Salaries paid (200,000)
Income tax paid (40,000)
Net cash flows from operating activities 260,000
Investing activities
Dividends received 300,000(According to IFRS 18 only here)
Net cash flows from investing activities 300,000
Financing activities
Interest paid (60,000) (According to IFRS 18 only here)
Net cash flows from financing activities (60,000)
Net increase in cash 500,000

Indirect method:

Operating activities

Operating profit 350,000

Adjustments:

Depreciation expense 50,000

Increase in accounts receivable (200,000)

Increase in accounts payable 100,000

Income tax paid (40,000)

Net cash flow from operating activities 260,000

As a result, we get the same net cash flow, taking into account that Investing and Financing activities remain the same and are not mixed in any way with Operating activities, based on the internal discretion of the organization. This model shows, that IFRS 18 Presentation and Disclosure in Financial Statements creates a "mirror effect" by linking the two reports. These features of the formation of information in the statement of cash flows indicate that its content provides sufficient data necessary for analysis and further financial planning.

The above-mentioned report is a valuable source for business evaluation, which has different meanings for different groups of users. Some analysts even consider the cash flow statement to be more primary and informative than the profit or loss statement, as they believe that cash is less susceptible to manipulation, which makes it a more reliable indicator.

Conclusion

As a result of the study, one main fact becomes clear: each transaction related to cash should be recorded in the report

completely and with maximum accuracy. This determines not only the reliability of the report, but also the ability of management to make timely and correct decisions, prevent financial crises, as well as to effectively use available cash resources. The preparation of the report, both in direct and indirect versions, allows for an in-depth analysis, revealing the relationship between profit and cash flows, helps to understand what part of the profit is at the disposal of the company in the form of cash. The study makes it clear that it is easier and more efficient for the organization to compile it using the direct method, which allows for a quick assessment of the level of liquidity without additional computational complications.

At the same time, the report compiled using the indirect method substantiates how non-cash items affect the financial result of the organization. Thus, modern approaches to the formation of a cash flow statement are aimed at maximum transparency of the report, automation of its preparation process, and use as a strategic tool for making managerial decisions.

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ԴՐԱՄԱԿԱՆ ՄԻՋՈՑՆԵՐԻ ՀՈՍՔԵՐԻ ՄԱՍԻՆ ՀԱՇՎԵՏՎՈՒԹՅԱՆ ՁԵՎԱՎՈՐՄԱՆ ԱՐԴԻ ՄՈՏԵՑՈՒՄՆԵՐԸ ԵՎ ԳՈՐԾՆԱԿԱՆ ԿԻՐԱՌՈՒԹՅՈՒՆԸ

Գոհար Կոստանյան
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Գոհար Հարությունյան
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դասախոս

Բանալի բառեր – դրամական հոսքերի ուղղակի և անուղղակի ներկայացումներ, ֆինանսական հաշվետվություններ, Ֆինանսական հաշվետվությունների միջազգային ստանդարտներ, հաշվետու ժամանակաշրջան, IFRS 18:

Կազմակերպությունների ռազմավարական կարևոր նպատակներից է ոչ միայն ֆինանսական շահույթի, այև

իրացվելի դրամական միջոցների գեներացումը: Հաշվետու ժամանակաշրջանի ընթացքում դրամական միջոցների և դրանց համարժեքների փոփոխությունների վերաբերյալ տեղեկատվությունը պետք է ներկայացվի համապատասխան հաշվետվությունում՝ դրամական միջոցները ձևավորող հոսքերի տեսքով: Սա հնարավորություն է տալիս ֆինանսական տեղեկատվության օգտագործողներին գնահատել կազմակերպությունների դրամական միջոցներ ստեղծելու կարողությունը, ինչպես նաև դրանց կառավարման ու ապագա հոսքերի ծավալի մեծացնելու ունակությունը:

Դրամական միջոցների հաշվետվության կազմումը՝ միաժամանակ ուղղակի և անուղղակի տարբերակներով, թույլ է տալիս իրականացնել խորքային վերլուծություն: Միևնույն ժամանակ անուղղակի եղանակով կազմված հաշվետվությունը հիմնավորում է, թե ինչպես են ոչ դրամային հոդվածները ազդում կազմակերպության ֆինանսական արդյունքի վրա: Դրանով իսկ, դրամական միջոցների հոսքերի մասին հաշվետվության ձևավորման արդի մոտեցումները միտված են հաշվետվության առավելագույն թափանցիկությանը, դրա կազմման գործընթացի ավտոմատացմանը և կառավարչական որոշումների կայացման համար որպես ռազմավարական գործիք կիրառմանը:

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