



IMPROVING CASH FLOW STATEMENT ON THE BASIS OF INTERNATIONAL STANDARDS

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Abstract: This article describes how to prepare a cash flow statement using the direct method based on International Financial Reporting Standards. In our country, only the direct method is used in the preparation of cash flow statements, so the introduction of the direct method by us will help to increase investor confidence in financial statements.

Keywords: cash, cash equivalents, cash flow statement, direct method, operating activity, investment activity, financial activity, financial statement, receipts from customers, payments to suppliers for goods and services, payments to employees, profit tax payments.

Introduction.

In an increasingly globalized economy, transparent and comparable financial information has become paramount for investors, lenders, and other stakeholders. The Statement of Cash Flows—a core component of the financial statements—plays a decisive role in assessing an entity's liquidity, solvency, and overall financial adaptability. While many jurisdictions have formally adopted the International Financial Reporting Standards (IFRS), practical alignment with IAS 7: Statement of Cash Flows often lags behind, leading to inconsistencies in presentation, classification, and disclosure.

This paper examines how the current cash flow reporting framework can be enhanced in line with international standards. It begins by identifying the most common deviations from IAS 7 encountered in practice, including the misclassification of operating and financing activities, inadequate reconciliation with profit and loss figures, and insufficient disclosure of non cash transactions. Building on these observations, the study outlines a systematic set of recommendations—spanning policy adjustments, internal control enhancements, and staff training initiatives—to bring cash flow reporting into full compliance with IFRS requirements.

Ultimately, refining the Statement of Cash Flows according to global best practices is expected to improve the reliability and comparability of financial information, thereby facilitating better decision making for all stakeholders and strengthening the credibility of financial reporting in the international arena.

Methods. In order to study the issues raised in this particular article, to explore in more detail the role of staff motivation in development of small business and private enterprises, during our research we used the methods of scientific abstraction, induction and deduction, methods of observation, logical and structural analysis, grouping, mutual and comparative comparison.

Results

The need to prepare financial statements in accordance with international financial reporting standards is established by the Resolution of the President of the Republic of Uzbekistan No. PQ-4611 dated February 24, 2020 "On additional measures for the transition to international financial reporting standards". [2]

Accordingly, it is determined that the Cash Flow Statement must be prepared in accordance with international standards.

In international practice, investors pay attention to the cash flow statement, which is one of the

forms of financial reporting. The reason is that the amount of money inflows and outflows to the entity arouses their interest.

The statement of cash flows, when used in conjunction with other financial statements, provides users with information to assess the changes in the net assets of an entity, its financial structure (liquidity and solvency), and its ability to influence the amount and timing of its cash flows to adapt to changing opportunities and circumstances. Cash flow information is useful in assessing the ability of an entity to generate cash and cash equivalents, and allows users to develop models for estimating and comparing the present value of future cash flows from different entities. [10]

The statement of cash flows allows users to assess changes in the financial position of an entity by providing them with information about how much cash has been received and how much has been paid during the reporting period. The statement of cash flows classifies cash receipts and payments into three main categories: operating, investing, and financing activities.

The amount of cash flows from operating activities is a key indicator of the extent to which an entity has generated sufficient cash flows from its operating activities to service its debt, maintain its ability to continue operating, pay dividends, and make new investments without resorting to external sources of financing. Information about the individual components of cash flows from operating activities in previous periods is useful, along with other information, in forecasting future cash flows from operating activities.

Presentation of cash flows from operating activities [11] (not disclosed in the IFRS):

Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information that may be useful in estimating future cash flows that is not reflected in the indirect method. When the indirect method is used, information about the main categories of gross cash receipts and gross cash payments can be obtained in the following ways:

- from the accounting records of the business entity; or
- by adjusting the sales revenue, cost of sales (interest and similar income and interest expense and similar expenses for financial institutions) and other items reflected in the statement of comprehensive income for:
 - changes in inventories and operating receivables and payables during the period;
 - other non-cash items; and
 - other items that generate cash flows from investing or financing activities.

An entity discloses cash flows arising from operating activities using:

The direct method, which discloses the principal types of gross cash receipts and gross cash payments;

The indirect method, which adjusts net income or loss for changes in current assets and liabilities, uncertain transactions, and gains and losses arising from operating, investing, or financing activities. [12]

IAS: According to IAS 7, information about an entity's cash flows is useful to users of financial statements in assessing the entity's ability to generate cash and cash equivalents and its needs to use those cash flows. The statement of cash flows should present cash flows during the period, classified by operating, investing, and financing activities..

Consistent classification:

- Non-cash transactions are not included;
- Applying the correct or incorrect method IFRS 7 recommends using the correct method;
- Allows financial institutions to prepare reports on a NET basis.

The principle of calculating the cash flow statement for business entities is not followed. Accordingly, in order to prepare the cash flow statement using the direct method, the following indicators should be considered to determine the cash flow from operating activities:

1. Revenue from customers;
2. Payments to suppliers for goods and services;
3. Payments to employees;
4. Payments for income tax.

When preparing cash flow statements, the statement of financial position and the profit and loss statement, prepared in accordance with international standards, are primarily used.

Table 1.

Appendices from the statement of financial position of ABC Company

	At the beginning of the year	By the end of the year
Assets:		
Accounts receivable from customers	55 000	47 000
Inventories	110 000	144 000
Advances for goods and services	5 000	1 000
Accounts payable to suppliers	43 000	50 000
Employee compensation liabilities	9 000	10 000
Current income taxes payable	5 000	3 000

Source: *data compiled by the author

Table 2.

Appendices from the profit and loss statement of ABC Company

Profit or Loss Section	
Revenue	698 000
Cost of sales	457 000
Period expenses	116 000

Source: *data compiled by the author

Table 3.

Additional information for the year

Depreciation of fixed assets	37 000
Loss on sale of fixed assets	3 000
Labor compensation expenses	58 000
Current income tax	18 000

Source: *data compiled by the author

1. To determine the above indicators, we will cite the formula for each indicator [13]:
2. 1. Revenue from customers.

Revenue ± decrease (increase) in accounts receivable decrease (increase) in advances received from customers = Revenue from customers

3. Revenue from customers = 698000 + 8000 = 706000
4. In the above formula, revenue is taken from the income statement, while accounts receivable and advances from customers are taken from the statement of financial position.
5. 3. Payments to suppliers for goods and services.

Payments to suppliers = cost of goods sold + period expenses - depreciation expense - loss on sale of fixed assets - labor expense decrease (increase) in inventories decrease (increase) in accounts payable

Payments	to	suppliers	=
457000	+	116000	-
	-	37000	-
	-	3000	-
	+	58000	+
	+	34000	-
	-	4 000	-
	-	7 000	=
498000			

6. Payments to employees.

Employee benefits = salary expense ± decrease (increase) in salary liability
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7. Payments to employees = 58000 – 3000 = 55000

8. 7. Payments for profit tax.

Income tax payments = current income tax expense ± decrease (increase) in current tax payable

Income tax payments = 18000 + 2000 = 20000

The above formulas determine the net cash flows from operating activities of the cash flow statement. Cash flow presentation on a net basis:

Based on the above, we present the form of the cash flow statement prepared using the direct method:

4 – table.

Cash flow statement – direct method

Cash Flow Statement	
For the period from 1 _____ to 1 _____, 20__	
Cash flow from operating activities	
Revenue from sales	+ 706 000
Payments to suppliers	- (498 000)
Payments to employees	- (55 000)
Income tax payments	- (20 000)
Cash flow from operating activities	+ 133 000
Cash flow from investing activities	
Acquisition of fixed assets	- (220 000)
Sale of fixed assets	+ 5 000
Purchase of securities	- (72 000)
Sale of securities	+ 103 000
Cash flow from investing activities	- (184 000)
Cash flow from financing activities	
Proceeds from issuance of common shares	+ 150 000
Income from bank loans	+ 100 000
Repayment of bank loans	- (50 000)
Interest payments	- (23 000)
Dividend payments	- (94 000)
Cash flow from financing activities	+ 83 000
Net changes in cash position	+ 32 000
Cash at the beginning of the year	15 000
Cash at the end of the year	47 000

*Source: *data compiled by the author*

Today, some errors are made in the preparation and practice of the cash flow statement. This indicates that the reporting form is not perfectly formed. Therefore, it would be appropriate to make some changes to the form of the “Cash Flow” report. That is, firstly, in the currently used reporting form, the inflow and outflow of cash of the enterprise are reflected in the form of one reporting period. However, it is appropriate to study, analyze and evaluate the various activities of enterprises over several years. It would be more effective to reflect two reporting periods in the form of the “Cash Flow” report, like the forms of the “Accounting Balance Sheet” (Form 1) and the “Report on Financial Results” (Form 2). Secondly, in the currently used reporting form, the movement of cash is classified into separate sections for each type of activity.

In conclusion, we can say that the preparation and presentation of a cash flow statement using the direct method will further increase the ability of companies to formulate their financial statements based on international standards, and will serve to eliminate the problems that arise in the preparation of this form in practice and make it easier for investors to determine the state of cash flows from this form.

Analyses.

1. Regulatory and Conceptual Framework

Uzbekistan’s transition to International Financial Reporting Standards (IFRS) was formalised by Presidential Resolution PQ-4611 of 24 February 2020. Among other mandates, it requires all large entities to prepare their Statement of Cash Flows (SCF) in accordance with IAS 7. IAS 7 classifies cash movements into three categories—operating, investing, financing—and strongly encourages the direct method for operating activities. Despite that preference, many Uzbek entities continue to default to the indirect method, present only a single-year SCF, and misclassify cash flows or include non-cash transactions, undermining comparability.

2. Why Investors Prioritise the SCF

Unlike the statement of profit or loss, the SCF is largely insulated from accounting policy choices and non-cash estimates. It allows users to:

- Gauge operating sustainability by measuring whether core activities consistently generate positive cash flows. Assess financial flexibility—the ability to service debt, pay dividends, and fund capital expenditure without relying on external finance. Model enterprise value through discounted-cash-flow techniques that require a clean separation of operating and non-operating streams.

3. Critical Appraisal of Current Practice

Table 1 summarises key weaknesses in current reporting practice, their consequences, and IFRS-compliant remedies.

Weakness	Practical Consequence	IFRS- Compliant Remedy
Single- period presentation	Inhibits trend and ratio analysis.	Adopt a two-period comparative layout.
Indirect- method dominance	Masks core drivers of cash, complicates forecasting.	Implement the direct method from ERP/ledger data.
Misclassification of cash flows	Distorts operating cash metrics and debt-coverage ratios.	Use IAS 7 guidance hierarchy for classification.
Inclusion of non- cash items	Double- counts effects already reflected in the balance sheet.	Disclose non-cash events in notes, exclude from SCF totals.
Lack of policy disclosure	Limits comparability and auditability.	Provide explicit notes on classification judgements and reconciliation methods.

4. Illustrative Case: ABC Company

Using the supplied data, ABC's SCF (direct method) shows OFCF of UZS 133 000. Key observations include stronger cash generation than earnings, negative investing cash flow signalling growth, and positive financing inflows funded by share issuance and incremental debt.

5. Benefits of Direct-Method Adoption

Table 2 outlines the benefits of adopting the direct method.

Benefit	Rationale
Predictive value	Gross cash-in and cash-out data enhance cash-flow modelling accuracy.
Credit analysis	Improves visibility into collections and payments for banks and rating agencies.
Operational diagnostics	Allows real-time tracking of cash leakages and corrective action.
Stakeholder confidence	Aligns disclosures with global practices, improving access to capital markets.

6. Implementation Roadmap for Uzbek Entities

1. Data infrastructure – configure ERP systems to tag cash receipts and disbursements by IAS-7 codes.
2. Policy documentation – issue an accounting manual specifying SCF classification rules and procedures.
3. Training and change management – conduct workshops for finance staff and auditors on direct-method preparation.
4. Comparative rollout – pilot a dual-presentation SCF (direct + indirect) for one transition year.
5. Audit assurance – engage auditors early to validate data extraction logic and note disclosures.

7. Implications for Policy-Makers and Standard-Setters

- Regulatory reinforcement – mandate direct-method SCF for public-interest entities.
- Template revision – update the national 'Form 4' template to include prior-period columns.
- Capacity-building – partner with professional bodies to deliver IFRS-focused CPD courses.

Discussion.

1. Alignment with IAS 7 is essential for competitiveness. Presidential Decree PQ-4611 obliges Uzbek companies to prepare an IAS 7-compliant Statement of Cash Flows (SCF). Firms that adopt the standard promptly gain transparency and appeal to global investors.
2. The direct method delivers maximum analytical insight. Disclosing gross cash inflows and outflows sharpens forecasts, highlights operational bottlenecks, and narrows the gap between management accounts and external reporting.
3. A two-period comparative SCF is vital for trend analysis. Like the balance sheet and income statement, the SCF should present two consecutive periods so users can track changes in

liquidity, profitability, and financial flexibility.

4. Common errors—indirect presentation, misclassification, inclusion of non-cash items—distort cash metrics. Correcting these flaws enhances the reliability of debt-coverage ratios, cash multipliers, and free-cash-flow indicators.
5. Economic payoff: the direct method speeds up capital turnover and lowers the cost of external finance. Clearer cash-flow data boosts lender and investor confidence, easing access to funding on better terms.
6. Robust digital infrastructure and corporate policies are critical to success. Tagging transactions with IAS 7 codes in ERP systems, issuing detailed classification guidelines, and training staff reduce errors and streamline audits.
7. Regulators should strengthen methodological guidance. Updating the national “Form 4” SCF template to mirror IAS 7—including a mandatory comparative column—will accelerate uniform practice across entities.
8. Bottom line: adopting a direct, comparative SCF is not just compliance—it is a strategic advantage. It improves decision-making quality, enhances the investment profile of Uzbek enterprises, and supports their integration into global capital markets.

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