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# International Conference of Economics, Finance and Accounting Studies

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## Procedure for Transforming Cash Flows From National Standards to International Standards

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Currently, international financial reporting standards (IFRS) are applied in more than 166 countries worldwide. In Uzbekistan, the following organizations are required to maintain and submit financial statements based on IFRS:

- Over 2,000 joint-stock companies, commercial banks, insurance companies, and major taxpayers;
- Gradually, enterprises with state ownership and state-owned enterprises.

These organizations must employ at least three certified specialists in their accounting departments who are qualified in IFRS.

The process of preparing financial statements is based on the accrual principle, but this principle is not mandatory for cash flow statements. Accordingly, it is advisable to prepare cash flow statements using the direct method, drawing extensively from international practices. This approach enhances investor confidence and interest in financial statements.

The indicators for cash flows from operating, investing, and financing activities should ideally include the following components:

### 1. Operating Activities:

- Revenue from the sale of products, goods, and services;
- Payments to suppliers of goods and services;
- Royalties (payments for patents, copyrights, etc.), various types of compensation, interest income, commission fees, and other revenues;
- Monetary payments to employees and operational expenses;
- Decrease in inventory;
- Increase in inventory;
- Receipts from trade and intermediary contracts;
- Interest paid;
- Increase in current liabilities, including taxes not related to investing or financing activities;

- Decrease in current liabilities, including taxes not related to income from investing or financing activities;
- Non-cash expenses:
  - ✓ Depreciation of fixed assets and intangible assets, depletion of natural resources;
  - ✓ Amortization of discounts on debt securities;
- Non-cash obligations:
  - ✓ Amortization of premiums on debt securities.

## 2. Investing Activities:

- Proceeds from the sale of land, buildings, equipment, intangible assets, and other long-term assets;
- Payments for the purchase of land, buildings, equipment, intangible assets (e.g., patents), and other long-term assets, including capital expenditures and payments for research and development work conducted by the enterprise without involving contractors;
- Proceeds from the sale of shares or other debt obligations of other organizations (considered as cash equivalents or held for sale, excluding payments for such obligations);
- Investments in shares or debt obligations of other organizations. Capital participation shares (excluding payments for securities held for sale);
- Repayment of loans granted to other organizations and repayment of debts (excluding interest income from operating activities);
- Loans granted to other organizations and debt repayments.

## 3. Financing Activities:

- Proceeds from issuing shares;
- Payments for repurchased shares;
- Proceeds from debt (issued bills, bonds, guarantee letters, and other short- and long-term credits and loans);
- Repayment of credits and loans (excluding interest payments related to operating activities);
- Dividend payments to shareholders and other distributions of capital. Payments related to financial lease obligations.

Economists have provided a new definition for the concept of "cash flows": "Cash flows are funds that can be used to promptly restore obligations. Cash flows include balances in current accounts at financial institutions, cash, banknotes, coins, foreign currency, cash in hand, and financial documents accepted for withdrawal by financial institutions."

Today, errors are still being made in the preparation and practice of cash flow statements, indicating that the reporting format is not yet fully developed. Therefore, it is appropriate to introduce certain changes to the cash flow statement format. Currently, the format reflects the inflows and outflows of an enterprise's cash for a single reporting period. However, analyzing and evaluating an enterprise's various activities over several years is more meaningful. The cash flow statement format should also reflect two reporting periods, similar to the "Balance Sheet" (Form 1) and the "Income Statement" (Form 2). Additionally, the current format does not classify cash flows separately by activity type.

In summary, preparing and presenting cash flow statements using the direct method enhances the ability of companies to align their financial reporting with international standards. It also helps resolve practical challenges and provides convenience for investors in assessing cash flow conditions.

Currently, financial statements are being prepared based on national standards and transformed into international standards. However, according to the Presidential Decree PQ-4611 dated February 24, 2020, "On Additional Measures for Transitioning to International Financial Reporting Standards," all joint-stock companies are now required to prepare financial statements based on international standards. Detailed aspects of preparing financial statements using direct and indirect methods are outlined in Form 4 of IFRS.

Direct Method Example:

The direct method involves using data from accounts related to cash movements to prepare a cash flow statement (see Table 1).

**Table 1 Cash Flow Statement (Direct Method, First Approach: Based on Accounting Data)**

|  |                |                |
|--|----------------|----------------|
| <b>Operating Activities:</b>                             | <b>43,000</b>  | <b>*1,630*</b> |
| Received from customers                                  |                |                |
| Paid to suppliers  | (32,000)       |                |
| Lease payments   | (320)          |                |
| Wages paid   | (8,800)        |                |
| Income tax paid  | (250)          |                |
| <b>Net Cash from Operating Activities</b>                |                |                |
| -----  | -----          | -----          |
| <b>Investing Activities:</b>                             | <b>(1,500)</b> | <b>(1,050)</b> |
| Purchase of property, machinery, and equipment           | (450)          |                |
| Proceeds from sale of property, machinery, and equipment |                |                |
| <b>Net Cash from Investing Activities</b>                |                |                |
| -----  | -----          | -----          |
| <b>Financing Activities:</b>                             | <b>2,500</b>   | <b>*2,855*</b> |
| Capital contributions                                    | 560            |                |
| Loans received   | (55)           |                |
| Interest paid  | (150)          |                |
| Dividends paid   |                |                |
| <b>Net Cash from Financing Activities</b>                |                |                |

|                                  |               |                |
|----------------------------------|---------------|----------------|
| <b>Operating Activities:</b>     | <b>43,000</b> | <b>*1,630*</b> |
| -----                            | -----         | -----          |
| <b>Net Change in Cash</b>        |               | <b>*3,445*</b> |
| <b>Cash at Beginning of Year</b> |               |                |
| <b>Cash at End of Year</b>       |               | <b>*8,500*</b> |
|                                  |               | <b>11,935</b>  |

Second Approach:

The indirect method involves adjusting net profit for non-cash items and changes in balance sheet items related to cash flows. For example, the net profit is adjusted for depreciation, changes in receivables, payables, and other items to arrive at the net cash flow from operating activities.

**Example: "Ohangaron Cement" JSC**

The financial statements of "Ohangaron Cement" JSC illustrate the transformation of balance sheet items and income statement items into a cash flow statement (see Tables 2 and 3).

**Table 2 Balance Sheet of "Ohangaron Cement" JSC**

| <b>Balance Sheet Items</b>         | <b>2023</b>    | <b>2024</b>    | <b>Change</b> |
|------------------------------------|----------------|----------------|---------------|
| Current Assets:                    | 33,300         | 34,280         |               |
| Cash and cash equivalents          |                |                |               |
| Trade receivables                  | 1,250          | 1,370          | +120          |
| Franchise and interest receivables | 50             | 585            | +535          |
| Inventory                          | 2,500          | 2,670          | +170          |
| Prepaid expenses                   | 1,500          | 8,400          | +6,900        |
| <b>Total Current Assets</b>        | <b>38,600</b>  | <b>47,305</b>  | <b>+8,705</b> |
| Financial investments              | <b>37,200</b>  | <b>37,200</b>  | 0             |
| Fixed Assets                       | 206,700        | 207,550        | +850          |
| Accumulated depreciation           | (74,800)       | (76,800)       | +2,000        |
| <b>Total Fixed Assets</b>          | <b>131,900</b> | <b>130,750</b> | <b>-1,150</b> |
| <b>Total Assets</b>                | <b>207,700</b> | <b>215,255</b> | <b>+7,555</b> |

| <b>Balance Sheet Items</b>          | <b>2023</b>    | <b>2024</b>    | <b>Change</b> |
|-------------------------------------|----------------|----------------|---------------|
| Current Liabilities:                | 0              | 1,200          | +1,200        |
| Trade payables                      | 4,500          | 7,030          | +2,530        |
| Operating expenses payable          | 18,400         | 19,155         | +755          |
| Interest payable                    | 0              | 10             | +10           |
| Dividends payable                   | 2,700          | 4,700          | +2,000        |
| Income tax payable                  | 4,600          | 3,032          | -1,568        |
| <b>Total Current Liabilities</b>    | <b>30,200</b>  | <b>35,127</b>  | <b>+4,927</b> |
| Long-term Liabilities:              | 400            | 280            | -120          |
| Deferred income                     |                |                |               |
| Deferred tax liabilities            | 18,100         | 18,100         | 0             |
| <b>Total Long-term Liabilities</b>  | <b>18,500</b>  | <b>18,380</b>  | <b>-120</b>   |
| <b>Total Liabilities</b>            | <b>48,700</b>  | <b>53,507</b>  | <b>+4,807</b> |
| Shareholders' Equity:               | 29,700         | 29,900         | +200          |
| Retained earnings                   | 129,300        | 131,848        | +2,548        |
| <b>Total Shareholders' Equity</b>   | <b>159,000</b> | <b>161,748</b> | <b>+2,748</b> |
| <b>Total Liabilities and Equity</b> | <b>207,700</b> | <b>215,255</b> | <b>+7,555</b> |

**Table 3 Income Statement of "Ohangaron Cement" JSC for 2024**

|                            |               |
|----------------------------|---------------|
| <b>Revenue:</b>            | <b>23,950</b> |
| Sales volume               |               |
| Franchise-related income   | 500           |
| Interest received          | 155           |
| <b>Total Revenue</b>       | <b>24,605</b> |
| <b>Costs and Expenses:</b> |               |
| Cost of goods sold         | 2,420         |

|  |               |
|--|---------------|
| <b>Revenue:</b>  | <b>23,950</b> |
| Operating expenses:                                      |               |
| Wages  | 5,900         |
| Other expenses (rent, inventory, maintenance, insurance) | 5,905         |
| <b>Total Operating Expenses</b>                          | <b>11,805</b> |
| Depreciation   | 2,000         |
| General and administrative expenses                      | 790           |
| <b>Total Costs and Expenses</b>                          | <b>17,015</b> |
| <b>Profit Before Interest and Tax</b>                    | <b>7,590</b>  |
| Interest expense   | 10            |
| <b>Profit Before Tax</b>                                 | <b>7,580</b>  |
| Income tax   | 3,032         |
| <b>Net Profit</b>  | <b>4,548</b>  |
| Earnings per share                                       | \$34          |

Transformation to Cash Flow Statement:

To prepare the cash flow statement, adjustments are made to the income statement items to reflect actual cash movements. For example, sales revenue is adjusted for changes in receivables, and cost of goods sold is adjusted for changes in inventory and payables.

**Table 4 Cash Flow Statement of "Ohangaron Cement" JSC for 2024 (Direct Method, Second Approach)**

|                               |               |
|-------------------------------|---------------|
| <b>Operating Activities:</b>  | <b>23,830</b> |
| Cash inflows: From customers  |               |
| Franchise payments            | 0             |
| From investors                | 0             |
| Cash outflows:                | (387)         |
| Payments to suppliers (trade) |               |
| Other suppliers               | (13,273)      |

|   |                 |
|---|-----------------|
| <b>Operating Activities:</b>              | <b>23,830</b>   |
| Wages paid                                | (5,300)         |
| Income tax paid                           | (4,600)         |
| Interest paid                             | 0               |
| <b>Net Cash from Operating Activities</b> | <b>270</b>      |
| <b>Investing Activities:</b>              | 190             |
| Purchase of equipment                     |                 |
| <b>Net Cash from Investing Activities</b> | <b>(190)</b>    |
| <b>Financing Activities:</b>              | 1,000           |
| Bank borrowings                           |                 |
| Additional capital                        | 200             |
| Cash outflows:                            | (300)           |
| Bank notes                                |                 |
| Dividends paid                            | 0               |
| <b>Net Cash from Financing Activities</b> | <b>900</b>      |
| <b>Net Increase in Cash</b>               | <b>\$980</b>    |
| <b>Cash at Beginning of Period</b>        | <b>33,300</b>   |
| <b>Cash at End of Period</b>              | <b>\$34,280</b> |

Indirect Method Example:

The indirect method starts with net profit and adjusts for non-cash items and changes in working capital to arrive at net cash flow from operating activities.

**Table 5 Cash Flow Statement of "Ohangaron Cement" JSC for 2024 (Indirect Method)**

|                                      |               |
|--------------------------------------|---------------|
| <b>Operating Activities:</b>         | <b>37,293</b> |
| <b>Net Profit (Loss)</b>             |               |
| Adjustments to reconcile net profit: | 46,894        |
| Depreciation and amortization        |               |

|   |                 |
|---|-----------------|
| <b>Operating Activities:</b>                | <b>37,293</b>   |
| Provision for doubtful receivables          | 34              |
| Loss on sale of assets                      | 124             |
| Non-cash interest income                    | (968)           |
| Loss on retirement of long-term bonds       | 194             |
| Deferred income tax                         | 11,902          |
| General service reserve                     | 3,463           |
| Non-consolidated items                      | 99              |
| Changes in working capital:                 | (11,529)        |
| Increase in receivables                     |                 |
| Decrease in income tax receivables          | -               |
| Decrease (increase) in inventory            | (296)           |
| Decrease (increase) in other current assets | 1,840           |
| Increase (decrease) in payables             | (17,362)        |
| Increase (decrease) in sales tax payables   | (366)           |
| Increase (decrease) in accrued liabilities  | (26,217)        |
| <b>Net Cash from Operating Activities</b>   | <b>45,105</b>   |
| <b>Investing Activities:</b>                | <b>(35,973)</b> |
| Capital expenditures                        |                 |
| Proceeds from sale of assets                | 410             |
| Increase in intangible assets               | (1,830)         |
| Increase in long-term investments           | (5,710)         |
| Increase in other receivables               | (3,432)         |
| Proceeds from long-term notes               | 2,231           |
| <b>Net Cash from Investing Activities</b>   | <b>(44,304)</b> |

|   |                |
|---|----------------|
| <b>Operating Activities:</b>              | <b>37,293</b>  |
| <b>Financing Activities:</b>              | 7,432          |
| Long-term bond principal payments         |                |
| Proceeds from stock issuance              | 3,561          |
| Treasury stock purchases                  | -              |
| Dividends paid                            | (4,971)        |
| <b>Net Cash from Financing Activities</b> | <b>(8,842)</b> |
| <b>Net Increase (Decrease) in Cash</b>    | <b>(8,041)</b> |
| <b>Cash at Beginning of Year</b>          | <b>61,589</b>  |
| <b>Cash at End of Year</b>                | <b>53,546</b>  |

Key Adjustments in Indirect Method:

1. **Depreciation and Amortization:** Added back to net profit as they are non-cash expenses.
2. **Provision for Doubtful Receivables:** A non-cash expense added back.
3. **Loss on Sale of Assets:** Added back as it does not involve cash outflow.
4. **Non-Cash Interest Income:** Deducted, as it does not involve cash inflow.
5. **Deferred Income Tax:** Adjusted for timing differences between accounting and tax reporting.
6. **Changes in Working Capital:** Adjusted for increases or decreases in receivables, payables, and inventory.

**Conclusion:**

Transforming cash flow statements from national standards to international standards involves a systematic approach, as demonstrated above. This ensures that financial statements meet international standards, providing clarity and reliability for investors and stakeholders.