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## Management of Operating Cash Flows in Enterprises

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Efficient management of financial resources is a key factor in ensuring the economic well-being of enterprises and represents a guarantee of sustainable development in the future. The management of cash flows is a financial tool that contributes to achieving the main goal of any commercial enterprise — the generation of profit.

In the context of global competition, the sustainable growth of enterprises and the continuity of their operations in the market primarily depend on the adequate formation and effective management of cash flows. Although the accrual principle of accounting for revenues and expenses provides a comprehensive reflection of financial outcomes (profit or loss), it does not directly guarantee daily payment capacity or liquidity. In this context, operating cash flow (OCF) is recognized as one of the most important indicators of a company's ability to generate cash from its core business activities. A stable and sufficient level of operating cash flows enhances the company's capacity to: (i) make timely payments to suppliers, (ii) meet payroll obligations, (iii) fulfill tax liabilities, and (iv) finance investment programs using internal resources. Moreover, operating cash flows play a central role in decisions made by creditors and investors, including covenant assessments, discounted cash flow (DCF) valuations, and the formulation of dividend policies.

Therefore, improving the methodology for generating, measuring, and analyzing operating cash flows, optimizing working capital management (the 'receivables–inventory–payables' triangle), and building reliable cash flow forecasts are considered among the key scientific and practical priorities. In international practice, the statement of cash flows is prepared in accordance with IAS 7 (International Accounting Standard) and US GAAP regulations. These standards require the presentation of cash flows in separate categories: operating, investing, and financing activities. The operating section includes cash inflows and outflows directly related to the entity's principal revenue-generating activities.

Operating cash flows are clearly distinguished from investing cash flows (related to expenditures and proceeds from fixed assets and intangible assets) and financing cash flows (involving debt issuance/repayment, equity issuance, and dividend payments). This distinction enables more reliable conclusions to be drawn during analysis regarding the sources and uses of funds. The daily dynamics of operating cash flows are determined by the following factors:

- although revenue growth may be positive, a slowdown in the collection of accounts receivable can hinder cash inflows, as it reflects reduced speed in sales conversion and cash collection.

- in inventory management, excessive stock represents tied-up cash, while insufficient inventory may lead to lost sales opportunities, both of which can disrupt the balance of operational efficiency.
- implementing accounts payable policies through negotiated payment terms with suppliers can ease cash flow cycles; however, excessive delays in payments may negatively affect supplier relationships and increase supply chain risks.
- even when revenue growth is positive, a slowdown in the turnover of accounts receivable- reflected in slower sales collection-can significantly constrain cash inflows.
- in inventory management, excess stock leads to frozen capital, while shortages may result in missed sales opportunities; both scenarios disrupt the optimal balance of operational performance.
- in managing accounts payable, negotiating payment terms with suppliers can improve cash flow circulation; however, excessive delays may harm relationships with vendors and increase supply chain risk.
- the timing of tax and interest payments-based on fiscal calendars, advance payments, exemptions, and deductions-has a direct impact on cash flows.
- seasonality and business model characteristics-such as seasonal sales, prepayments, deferred payment terms, and subscription or continuous service models-shape the overall cash flow profile. The following table presents key indicators of Operating Cash Flow (OCF):

**Table 1. Indicators of Operating Cash Flows<sup>1</sup>**

$OCF \text{ Margin} = OCF / \text{Revenue}$	Measures the efficiency of cash generation from core operations.
$\text{Earnings Quality Index} = OCF / \text{Net Profit}$	Indicates the degree of cash conversion from earnings; values >1 are typically positive.
$OCF / \text{Current Liabilities}$	Reflects the company's ability to cover short-term obligations through cash flow.
$\text{Cash Interest Coverage} = OCF / \text{Interest Payments}$	An indicator of financial stability and debt servicing capacity.
$\text{CAPEX Coverage} = OCF / \text{CAPEX}$	Measures the extent to which capital expenditures are financed by internal cash.
$\text{Free Cash Flow (FCF)} = OCF - \text{CAPEX}$	Used to assess the company's capacity for dividend payments, debt repayment, and reinvestment.

In particular, cash flows from operating activities are generated from operating income and non-cash expenses such as depreciation. Specifically, operating income is primarily influenced by working capital investments related to raw materials, semi-finished and finished goods, as well as accounts payable and accounts receivable.

The cash flows generated from the core operations of joint-stock companies possess the following specific characteristics:

The core operations of a joint-stock company constitute the most essential part of its overall economic activity and indicate the source of cash inflows. Therefore, cash flows from operating activities represent the largest share of the company's total cash flows.

The operating cash flows of a joint-stock company depend on the industry in which the company operates. Therefore:

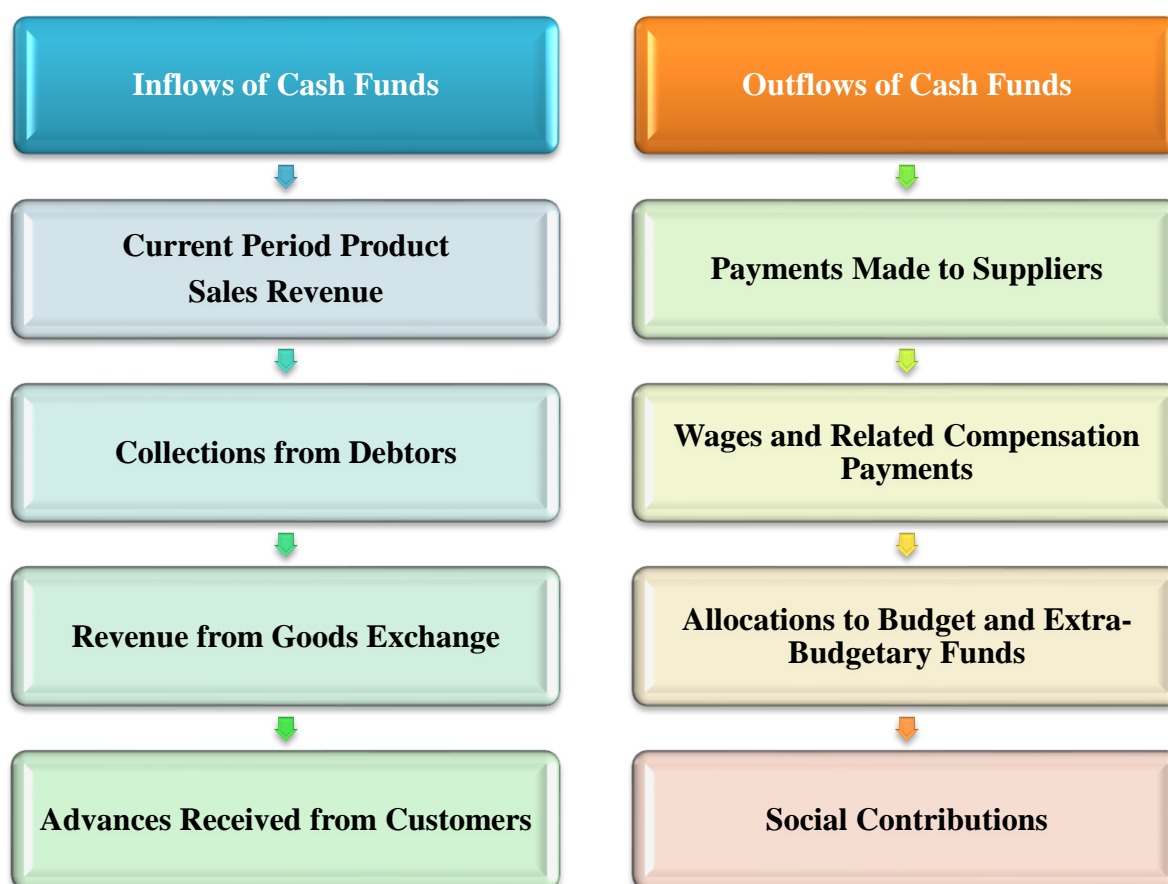
- the cash conversion cycles vary among joint-stock companies operating in different sectors;

<sup>1</sup> The author's proprietary development

- operating cash flows are primarily influenced by the market price of the product and the conditions of its specific market segments;
- the fluctuations in operating cash flows are affected by risks associated with operational risks and related uncertainties.

Specifically, cash flows from the core operations of joint-stock companies primarily occur in the form of cash and cash equivalents. The inflows and outflows of operating cash flows are illustrated in Figure 1.1.

**Figure 2. Inflows and Outflows of Cash Funds from Core Operations of Enterprises**



As observed, in today's competitive market environment, the sustainable development of an enterprise primarily depends on the continuous circulation of cash funds and the maintenance of liquidity levels. Even when accounting profits are high, insufficient cash flows increase the risk of insolvency.

In conclusion, the systematic classification of cash inflows and outflows from operating activities, along with the evaluation and management of their movements, has become a priority task in corporate finance. The requirement by International Financial Reporting Standards (IFRS) to present the cash flow statement as a separate financial document further underscores the practical significance of this area.

### References

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