

# ASPECTS ON THE NEW APPROACHES TO CASH FLOW STATEMENTS

## ASPECTE PRIVIND NOILE ABORDARI ALE TABLOULUI FLUXURILOR DE TREZORERIE

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**Abstract.** *Exchequer flowchart was (and in some cases still is) a part of the governments of England (latterly to include Wales), Scotland, and Northern Ireland that was responsible for the management and collection of revenues. The Anglo-Saxon accountancy is more responsive to investors' needs, their focus being on the future activity of the company, on increasing the current and potential dividends, company capacity of generating positive exchequer flows, so that the notion that gains grounds is that of cash-flow and not that of result. Exchequer flowchart has turned into a compulsory report document incorporated into the International Accountancy Standards. The initial model, to be found throughout the whole bookkeeping world, is the FAS 95 "Statement of cash-flow" drafted by the FASB.*

**Rezumat.** *Tabloul fluxurilor de trezorerie se utilizează în special în mediul contabil anglo-saxon. Contabilitatea financiară anglo-saxonă este mai receptivă la cerințele investitorilor, aceștia fiind interesați de activitatea viitoare a întreprinderii, de mărimea dividendelor actuale și potențiale, de capacitatea întreprinderii de a genera fluxuri pozitive de trezorerie, astfel că noțiunea care câștigă teren este cea de cash-flow și nu cea de rezultat. Situația fluxurilor de trezorerie a devenit un document obligatoriu de raportare, fiind preluat n cadrul Standardelor Internaționale de Contabilitate. Modelul de plecare, care își găsește generalizare în întreaga lume contabilă, este modelul adoptat prin nomra FAS 95 „Statement of cash-flow” elaborată de FASB.*

Accounting has been transformed from a record of the business transactions of a company into a means of monthly calculation of a company's performance indicator, i. e. **output**. Flow is “an economic concept which refers to a movement or transfer of a quantity of goods, services or currency, over a specific period of time.” Flows are only an “accounting translation of exchanges” with the environment.

### MATERIAL AND METHODS

Every economic decision to make an investment is intended to improve the financial position of the business, which leads to increased capitalisation. Numerous authors have carried out research on cash flows. Bernard Colasse, for example, notes that cash flows (which are the remit of accounting) are flows of assets and liabilities that do not necessarily involve an impact on the company's cash on hand, which is why they recommend a ranking depending on cash impact: • cash flows with

immediate impact on the company's cash on hand (including all the purchases, impending payments and sales whose price was paid immediately); • cash flows which do not have an immediate effect on the company's cash on hand (such as acquisitions and sales on credit); • fictitious flows which never have an impact on the cash in hand (amortisations which generate a "*diminishing flow*")

## RESULTS AND DISCUSSIONS

In analysing cash flows, one must consider the information that is made available to users by the management. In this respect, the balance sheet highlights in a global manner, the balance of cash and the cash-equivalent assets of the company, at the beginning and the end of a particular period.

By examining the balance sheets of two consecutive periods, one can verify whether cash and cash-equivalent assets have increased or decreased during the specified period. However, the balance does not point out the causes that have determined the increase or decrease in cash and cash-equivalent assets during the financial period.

On the other hand, the profit and loss account provides information on the earnings, expenditure and output of various activities – which are benchmarks for the sources and uses of cash and cash-equivalent assets – yet this information too does not explain why those elements increased or decreased. Moreover, often behind significant profits reflected in the profit and loss accounts of a company there lie serious problems with liquidity. Cash flow statements are an alternative for solving the problems related to the provision of financial information to all parties interested in the economic and financial position of a company and are as such a most useful tool.

The users of financial and accounting information are not satisfied only with the information that is provided by the balance sheet and the profit and loss account and that is why further information is required for a more accurate image of the dynamics of the financial structure and that is why engagement accounting requires the determination of cash flows.

The state of cash flows has become a prerequisite reporting document, being included rather recently in the International Accounting Standards. Cash flow statements are particularly used in the accounting systems of Anglo-Saxon countries. The Anglo-Saxon financial accounting is more receptive to the needs of investors, who are interested in the company's future activity, the size of current and potential dividends, the company's capacity to generate positive cash flows, so that the prevailing notion is that of cash flow and not output.

Many Romanian companies face financial deadlock as they are not able to make payments and preserve their solvency. Under the circumstances, the introduction of a compulsory financial reporting document in Romania is welcome, as it would ensure further harmonisation with the International Accounting Standards and the prospect of reducing the financial deadlock at macroeconomic level through better management of liquid assets at macroeconomic level. The objectives of preparing the cash flow statements

consist of the disclosure of information on the cash flow evolution, the variation of cash flow starting from the results reported in the profit and loss account, the provision of information on the operations, investments and financing of a company during a particular financial year. The cash flow statement is of interest inside the company for the management and outside the company for investors and lenders. For investors and lenders, the cash flow statement is useful in assessing the company's capacity to generate future positive cash flows and to properly use those flows, thus providing an indication as to the quality of profit.

Cash flow statements classify the company's activities into operation, financing and investment activities. Within the cash flow statement, the flows are classified in three categories: flows generated by the operation activities; flows generated by the investment activities; flows generated by the financing activities.

The analysis of cash flows for all the three activities is useful for: correlating profit (loss) with cash; separating activities that involve cash from those that do not involve cash; evaluating the company's capacity to fulfil its obligation to pay in cash; assessing cash flows related to future activities. The usefulness of the analysis resides in the fact that the global cash flow variation is reflected in the cash reserves, resulting from asset management. The flows of the operation activity represent the monetary effects of events and transactions associated with the company's operation. The cash flows resulting from the company's operation can be determined by using the direct or indirect method.

The main features of the two methods are:

**a. the direct method:**

- uses information such as cash receipts and payments, the cash flow variation on operation activities being equal to the sum of cash receipts and payments. Information on the major classes of cash receipts and payments are not directly provided by the financial statements. These can be obtained either directly from accounting records, either indirectly through adjustments. The sum of sales during the financial period is not usually equivalent with the receipts from the sales over that period. In order to determine the information about cash receipts from customers, certain data are retrieved both from the balance sheet and from the profit and loss account, as they are more accessible to end users and ensure the presentation of the overall cash flow, thus providing information on the sources and uses of cash. The method is preferred by investors, as it provides useful information for forecasts of future cash flows (international accounting standards encourage the use of the direct method).

**b. the indirect method**

It is favoured by the company management (it conceals to internal users the actual image of the cash and solvency of the company). Using data provided by engagement accounting the method highlights the differences between the profit from operating activities and the net cash flow from the operating activities.

The method consists in preparing a table which adjusts the net results before taxes and the extraordinary elements with the net cash flow from the operating activities. It is preferred by the company's accountants, being easily obtained by

retrieving information from the balance and the profit and loss account. The new vocabulary of accounting revolves around the new trends in the comparability of the financial and accounting statements of the company. The objective is to provide an accurate image of the company's performance, which can be read and interpreted all over the world. As a matter of fact, the current orientation towards financial analysis is reflected at terminological level, through the change of the name of the well-known IAS (International Accounting Standards) into IFRS (International Financial Reporting Standards). Financial statements become useful to the extent that they provide a vision or a link to the future, that is, if they help end users to evaluate the company's capacity to generate cash flows in the future and the exact moment and the certainty of their generation. In a constantly changing economic environment, annual financial statements can no longer be limited to describing the past. The specialists accounting literature uses various terms to describe the annual reporting published by companies: annual accounts, summary reports or annual reports. The specifics of each report varies also with the individual accounting norms of each country.

## CONCLUSIONS

Of all the sources of information, summary documents are considered by end users as being the most comprehensive and most apt to reflect the company's official image. They lie at the centre of the decision-making process. That is why the quality of the information that they present and accurate disclosure are highly important both for those who prepare financial statements and for those who request such information. Intelligibility, relevance, comparability and reliability, along with the faithful presentation, prudence, neutrality and the observance of the other accounting principles are the crucial qualitative characteristics that must be considered when preparing and presenting financial statements.

Although IAS 7 recommend the utilization of the direct method, especially in order to satisfy the information needs of investors, who can thus make better forecasts of future cash flows, most companies prefer to use the indirect method, due to the calculation method which is closer to the format of accounting reports.

## REFERENCES

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