Improvements of the cash-flow statement control function in financial reporting

Metka Duhovnik; University of Ljubljana, Faculty of Economics, Ljubljana, Slovenia

Puni tekst: engleski, pdf (220 KB) str. 123-150 preuzimanja: 3.489* citraj

Sažetak
On the basis of deductive considerations applying professional judgement, the article focuses on the additional value of accounting information that can be given to the users of financial statements by a properly prepared statement of cash flows. It is based on the finding that the professional literature is inconsistent in distinguishing liquidity and profitability information, and consequently also in distinguishing between the ratios calculated on that basis. It therefore stimulates an improvement in the quality of accounting information with a direct statement of cash flows, based on tracing instead of calculating the actual cash flow. On the basis of financial statements, including a direct statement of cash flows, the ratio analysis of financial statements should be approached from both aspects of profitability and cash return. The cash flow ratios would serve as a control mechanism over the assumptions used when preparing the balance sheet and income statement within the chosen financial reporting framework.

Ključne riječi
Accounting information, financial reporting framework; direct statement of cash flows; cash flow ratios; control mechanism

Hrčak ID: 24489 URI https://hrcak.srce.hr/24489 [hrvatski] Posjeta: 4.230 *

The cash flow statement is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities. Noncash activities are usually reported in footnotes. It also categorizes the sources and uses of cash to provide the reader with an understanding of the amount of cash a company generates and uses in its operations, as opposed to the amount of cash provided by sources outside the company, such as borrowed funds or funds from stockholders. The cash flow statement also tells the reader how much money was spent for items that do not appear on the income statement, such as loan repayments, long-term asset purchases, and payment of cash dividends. Requirements for Cash Flow Statement. The cash flow statement complements the balance sheet and income statement and is a mandatory part of a company’s financial reports since 1987. The Bottom Line. A cash flow statement is a valuable measure of strength, profitability and of the long-term future outlook for a company. The CFS can help determine whether a company has enough liquidity or cash to pay its expenses. A company can use a cash flow statement to predict future cash flow, which helps with matters of budgeting. For investors, the cash flow statement reflects a company’s financial health since typically the more a "Cash Flow statements are statements of changes in financial position prepared on the basis of funds defined as cash or cash equivalents." The Institute of Cost and Works Accountants of India defines Cash Flow statement as "a statement setting out the flow of cash under distinct heads of sources of funds and their utilisation to determine the requirements of cash during the given period and to prepare for its adequate provision."

ADVERTISEMENTS 7. A prospective investor consults the cash flow statement to ensure that his investment gets regular returns in future. 8. It discloses the reasons for differences among net income, cash receipts and cash payments. Cash Flow Statement is useful for short-term planning and control of cash.